



Department  
for Business  
Innovation & Skills

**NATIONAL MINIMUM WAGE**

Interim Government Evidence  
for the 2016 Low Pay  
Commission

OCTOBER 2015

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## Ministerial Foreword

The labour market continues to make strong progress to achieve the government's long-term economic plan of full employment. The employment rate is at a record high. Two million more people are in work since 2010 and 1.1m more are forecast over the next five years by the OBR<sup>1</sup>.

As a One Nation Government we want a fair deal on pay for the hard working people of the UK. The National Minimum Wage provides as much support as possible to the wages of the low paid without damaging their employment prospects by setting it too high. The National Minimum Wage sets a wage floor below which pay cannot fall ensuring protection for low-paid workers, while also providing incentives to work.

We need to go further to address the issue of low pay. The new National Living Wage, applying to workers 25 years old and over, is an essential part of this Government's aim to move to a higher wage, lower tax and lower welfare society. A more generous tax system will help people earn more and keep more of what they earn. This ensures that work pays and reduces reliance on the State topping up wages through the benefits system.

The Low Pay Commission will continue to play a key role advising the Government on all National Minimum Wage rates as well as the pace of the increase in the National Living Wage towards the Government's ambition that it reaches 60% of median earnings. This Evidence document provides Government policy evidence to support the Low Pay Commission's research towards recommendations due in 2016.

We look forward to receiving the Commission's 2016 report.

Nick Boles MP

Minister of State for Skills

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<sup>1</sup> The Office for Budget Responsibility was created in 2010 to provide independent and authoritative analysis of the UK's public finances. <http://budgetresponsibility.org.uk/about-the-obr/what-we-do/>

# Update following the Low Pay Commission's report 2015

1. Following the Low Pay Commission's (LPC) recommendations for National Minimum Wage (NMW) rates from October 2015, the Government responded and laid its report in Parliament on 22 June 2015<sup>2</sup>. This report confirmed the Government's response to the NMW rate recommendations. The National Minimum Wage (Amendment) Regulations 2015 came into force on 1 October 2015<sup>3</sup>.
2. The LPC's recommendations followed consultation with businesses and workers and their representatives, together with extensive research and analysis. The recommendations reflect unanimous views of all the Commissioners. In reaching unanimity on their recommendations, the LPC has balanced the need to protect the earnings and jobs of low-paid workers against the difficulties faced by employers and businesses, paying particular attention to the employment prospects of young people.
3. The Government accepted the LPC recommendations for the following rates:
  - a 20p (3.1%) increase in the adult rate (from £6.50 to £6.70);
  - a 17p (3.3%) increase in the rate for 18-20 year olds (from £5.13 to £5.30)
  - an 8p (2.2%) increase in the rate for 16-17 year olds (from £3.79 to £3.87)
  - a 27p (5.3%) increase in the NMW Accommodation Offset rate (from £5.08 to £5.35)
4. Recognising the important role apprenticeships play, the Government wished to go beyond the LPC's recommendation to increase the Apprentice rate by 7p (2.6%) from £2.73 to £2.80. As of October 2015, the NMW for apprentices has now been increased to £3.30, marking the largest ever uplift in the rate (21%) and halving the gap with the age rate for 16-17 year olds, currently £3.79 an hour.
5. The Government also announced the introduction of the National Living Wage (NLW) from April 2016. This will be a new rate for workers aged 25 and above and will be set at a premium above the NMW. This rate will be initially set at £7.20 – a rise of 50p relative to the NMW rate as of 1 October 2015.

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<sup>2</sup> <https://www.gov.uk/government/publications/national-minimum-wage-report-on-the-2015-apprentice-rate>

<sup>3</sup> <http://www.legislation.gov.uk/ukxi/2015/1724/contents/made>

6. A report was laid before Parliament in accordance with sections 5 and 6 of the National Minimum Wage Act 1998, reproduced in Annex A. Where matters are referred to the LPC and the regulations depart from any of its rate recommendations, sections 5(4) and 6(3) require the Secretary of State to lay a report before each House of Parliament containing a statement of the reasons for the decision.
7. The Government published a full Impact Assessment<sup>4</sup> which outlines the detailed cost and benefits for the changes to all of the NMW rates. This includes the impact of the proposed increase to the Apprentice rate as discussed in this report.

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<sup>4</sup> <https://www.gov.uk/government/publications/national-minimum-wage-report-on-the-2015-apprentice-rate>

# National Minimum Wage – Low Pay Commission Remit 2016

8. Over the last 15 years the NMW has helped eliminate extreme low pay and preserve jobs in the face of recession. We appreciate the role that the Low Pay Commission (LPC) has played in these successes. Against the background of a continuing recovery, the Government would like the LPC to monitor, evaluate and review the levels of each of the different NMW rates (16-17, 18-20 age groups, adult and apprentice rates) and make recommendations on the increase it believes should apply from October 2016. Our aim is to have NMW rates that help as many low-paid workers as possible without damaging their employment prospects.
9. The Government is building on its strong economic performance that has seen 2 million more people in work in the last five years. A remaining, key economic challenge the Government wants to address is to move away from a low wage, high tax, high welfare society and encourage a model of higher pay and higher productivity – supporting people who work hard and want to get on in life to fulfil their aspirations.
10. As such, the Government wishes to see a higher wage for more experienced workers and so is introducing a premium for workers aged 25 and over. This will be over and above the NMW which will remain in place. The Government will set the first premium in April at 50p bringing the total National Living Wage (NLW) to £7.20 in April 2016. The Government asks the LPC to recommend the level of the NLW to apply from April 2017.
11. The Government estimates that the level of the combined NMW and the premium in April 2016 will be 55% of median earnings and has set out an ambition that this should continue to increase to reach 60% of median earnings by 2020, subject to sustained economic growth. The Government's objective is to have a NLW of over £9 by 2020.
12. In making recommendations in relation to the premium the LPC is asked to consider the pace of the increase, taking into account the state of the economy, employment and unemployment levels, and relevant policy changes.
13. Depending on the outcome of the review into bringing forward the NMW cycle, alongside the NMW recommendations in February 2016 the LPC are asked to provide indicative NMW rates for 2017, in order to give more certainty to business. Alongside the premium recommendation in October 2016 the LPC are asked to provide an indicative premium rate for April 2018. Both of these being subject to confirmation in light of economic conditions.

## Timing

14. The LPC is asked to provide a report to the Prime Minister and the Secretary of State for Business, Innovation and Skills on the NMW rates as early as possible in February 2016, and on the NLW by October 2016.



# Government Remit issues

## The National Minimum Wage

15. This Government supports the NMW because of the protection it gives low income workers and the incentives it provides to work. Since it was introduced in 1999, it has increased faster than average earnings and prices.
16. The LPC's 2015 report stated that we are now in a period of faster, real increases in the NMW, providing the economic recovery continues. For this reason we have asked the LPC to monitor, evaluate and review the levels of each of the different NMW rates and make recommendations on the increase it believes should apply from October 2016. These recommendations should be based on providing NMW rates that help as many low-paid workers as possible without damaging their employment prospects.
17. The LPC have been asked to report on this basis in February 2016.

## The National Living Wage

18. The new NLW is an essential part of moving to a higher wage, lower tax, lower welfare society; it ensures that work pays, and reduces reliance on the State topping up wages through the benefits system. From April 2016, the Government will introduce the NLW for workers aged 25 and above. This rate will be initially set at £7.20 – a rise of 50p relative to the NMW rate as of 1 October 2015.
19. This is a central part of the government's long-term economic plan and commitment to full employment. The employment rate stands at a record high of 73.5% (based on May to July 2015), and since 2010 the UK has experienced a greater increase in the number of people in work than the rest of the EU combined.
20. The Government has asked the LPC to recommend the level of the NLW in each subsequent year. The Government has set out an ambition that the NLW rate will reach 60% of median earnings by 2020, subject to sustained economic growth.

21. The OBR estimates that 2.75 million low wage workers will benefit directly from the NLW by 2020 and a total of 6 million people will see their wages indirectly affected<sup>5</sup>. Based on Office of Budget Responsibility (OBR) forecasts a full time NMW worker will earn over £4,800 more by 2020 from the NLW in cash terms, or £4,400 after taking into account inflation.
22. The OBR assessment of the impact of the introduction of a National Living Wage, given the continued strong employment growth seen in the UK, is to have “revised up fractionally” their forecast for unemployment rate. They estimate that even after the introduction of the new NLW, employment is forecast to rise by 1.1 million in 2021 – only 60,000 lower than it would have risen without the NLW.
23. Further to this, there is little evidence that National Minimum Wage rises to date have affected employment. The adult minimum wage increased by 10.8% in 2001, and by 31% between 2000 and 2004. Here, the evidence suggests that there was not a large impact on employment. Instead firms have adjusted through other channels, by adjusting profits and pricing strategies, changing pay differentials and, in low paying sectors, boosting productivity.
24. In making its decision to implement this NLW rate, the Government has considered a number of sources. This includes the 2014 report by the Resolution Foundation, chaired by Professor Sir George Bain. The Resolution Foundation set out a number of recommendations for the future of the NMW, including the need for a long-term ambition of economic policy; an expression of intent towards the future value of the NMW; and regular assessment by the LPC towards meeting the Government’s outlined ambition.
25. Alongside recommending the NMW rates for 2016, the Government has also asked the LPC to provide indicative rates for 2017. This will provide more clarity for businesses and provide a clear outlook alongside the review into bringing the NMW cycle forward (see NMW / Personal Allowance section below).
26. In making its recommendations for all NMW rates (including the NLW rate), the LPC will continue to provide independent advice. This will include consideration of the pace of the increases, the state of the economy, employment and unemployment levels and relevant policy changes.

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<sup>5</sup> OBR Economic and fiscal outlook, paragraph B.8, PAGE 201, ‘by 2020 we estimate that, absent any indirect effects, around ¾ million people aged 25 and over would move from receiving the NMW to the higher NLW. Just under an additional 2 million people would move from having hourly earnings between the £8.25 assumed NMW and the £9.35 assumed NLW to at least the NLW. Hourly earnings of around £9.35 would place an individual at the 16<sup>th</sup> percentile of the earnings distribution. Assuming that spillover effects extend to the 25<sup>th</sup> percentile implies that an additional 3¼ million people will also be affected, taking the total number of people affected to around 6 million’.

This advice will continue to include the potential blockages to higher rate increases, or outline constraints to specific areas in relation to low-pay. The Government's stated ambition will not require a change to the LPC's terms of reference, or the National Minimum Wage Act 1998.

### How the National Living Wage will be implemented

27. The NLW will be mandatory and introduced into law through an amendment to the National Minimum Wage Regulations 2015. It will come into force from 6 April 2016.
28. The adult NMW rate is currently £6.70. From April 2016 the NLW will be come into effect, setting a minimum of £7.20 per hour for workers over 25 year olds. The NMW will continue to apply to those aged between 21 and 24. The other NMW rates will continue as they have done previously and will also be recommended by the independent LPC.
29. For younger workers, the priority is to secure work and gain experience - that is already reflected in the NMW rate structure. In order to maximise the opportunities for younger workers to gain that experience, the NLW will only apply to workers aged 25 and over. The wages of younger workers will continue to be underpinned by the core NMW.

Rate	October 2015	April 2016
Adult NLW (>25 years)	-	7.20
21 – 24	6.70	6.70
18 – 20	5.30	5.30
16-17	3.87	3.87
Apprentice	3.30	3.30

30. Apprentices aged 16 to 18 and those aged 19 or over who are in their first year of an apprenticeship will continue to receive the Apprentice NMW at the new rate. Apprentices aged 19-24 in their second or subsequent years will receive the age-related rate of NMW. Those apprentices aged 25 and over, in the second year of an apprenticeship will be paid the NLW.

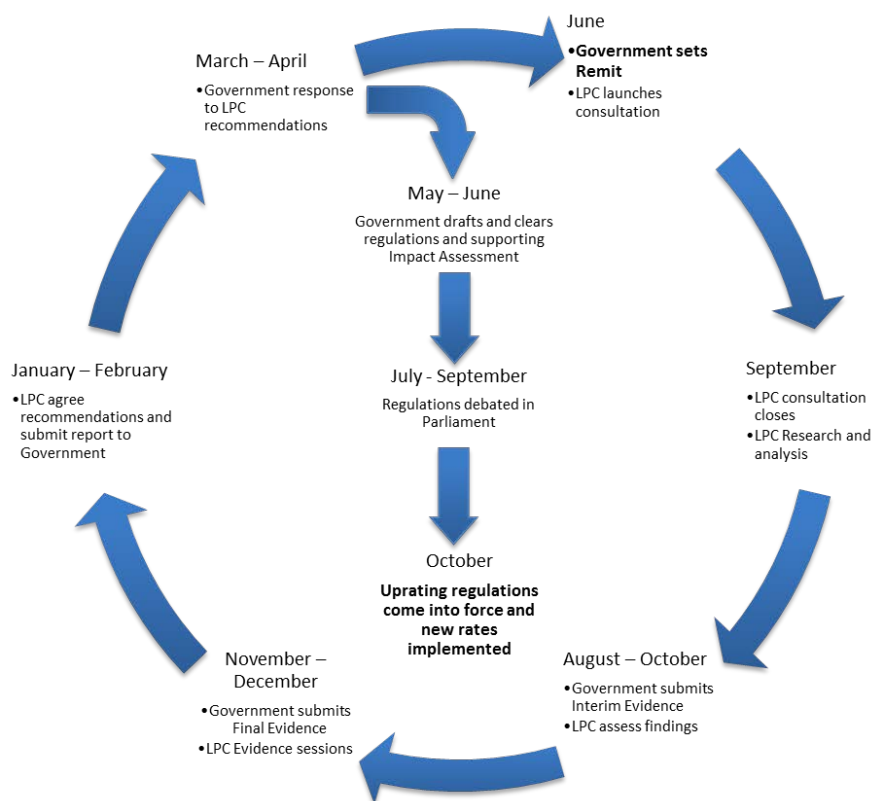
# Update on non-remit issues – NMW policy

## Review into alignment of the NMW and Personal Allowance cycles

31. The Government is helping raise living standards through cutting taxes and increasing employment. The Summer Budget announced the Government's intention to legislate so that people working 30 hours on the NMW will not pay income tax. This will be implemented in practice by ensuring that once the income tax personal allowance has reached £12,500, it will always be set at least at the equivalent of 30 hours a week on the NMW, rather than indexed on the basis of price inflation.
32. The Government plans to increase the Income Tax Personal Allowance to £12,500 by 2020. This will benefit over 1 million low-paid workers with full time minimum wage earners receiving an additional £355<sup>6</sup> a year in their pay packets.
33. The Government is undertaking a formal review to assess options for changing the timing of the NMW setting cycle so it is aligned with the Income Tax Personal Allowance cycle. It is considering the issues for both businesses and workers when aligning these cycles and will report to Ministers before the end of 2015.

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<sup>6</sup> Based on a full time 36 hour week

**Figure X – The current NMW cycle**

## Consolidation of NMW Regulations

34. It is important that employers understand their obligations and workers understand their rights to the NMW. The NMW Regulations contain detailed rules that underpin the minimum wage regime. Last year we updated the LPC on our plans to consolidate the NMW Regulations.
35. The National Minimum Wage Regulations 2015 came into force on 6 April 2015. The instrument consolidated the National Minimum Wage Regulations 1999 and subsequent amending regulations with the purpose of making the rules clearer and more workable for employers and employees (since they were introduced, the National Minimum Wage Regulations 1999 (“the 1999 Regulations”) have been amended over twenty times). The Government launched a consultation<sup>7</sup> on these changes in July 2014 and published a response to stakeholders in January 2015. The Houses of Parliament debated and agreed the draft regulations.
36. The changes were made to reflect current drafting practices to ensure that the rules are set out as clearly as possible. There were also changes made to the structure of the rules, including the use of shorter and more focused provisions, to make it easier for

<sup>7</sup> <https://www.gov.uk/government/consultations/national-minimum-wage-draft-consolidated-regulations>

the reader to navigate. The instrument did not introduce any substantive policy changes to the NMW rules.

## Modern Slavery Act and changes to Immigration policy

37. The Government has reviewed the law and clarified the entitlement of migrant domestic workers to the NMW.<sup>7</sup> This followed concerns that the family worker exemption (section 2.2) of the National Minimum Wage Act 1998 was being applied where it is not intended to operate.
38. The Modern Slavery Act 2015 brought about changes in immigration rules<sup>8</sup> which apply to the family worker exemption for the NMW. These changes came into force on April 6 2015 under the Immigration Act 1971. This does not amend the NMW legislation but it does change the approach in certain circumstances.
39. An Immigration Officer (when granting applications to leave or enter the UK) will now need to be satisfied that an employer will pay at least the NMW. Employers will have to commit to this in the relevant application forms and provide evidence to substantiate their claim.
40. Greater powers for Home Office case workers will mean they should be satisfied that arrangements are as set out in the application. The employer should confirm to Home Office officials that the worker does not fall under section 2.2 of the NMW Act (and therefore is not exempt from paying the NMW).
41. Any breach of the new immigration rules will allow Home Office to take enforcement action. We have updated our guidance page (calculating the NMW) to reflect this change<sup>9</sup>. All employees and workers in the United Kingdom are entitled to protections under employment law. A person from overseas who is working legally in Great Britain will have access to the Employment Tribunal system and have the right to bring a claim if their employment rights have been breached. Further details of the protections afforded by the Government can be found at <https://www.gov.uk/government/collections/immigration-rules>.

## Agricultural Wages

42. Once introduced, the NMW uprating in October, and the NLW in April 2017, will apply to all eligible agricultural workers in England. As the new rates are being implemented through NMW legislation, any minimum rates of pay specified in Orders affecting Wales, Scotland and Northern Ireland should apply as the 'minimum wage' across the

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<sup>8</sup> <https://www.gov.uk/government/collections/immigration-rules>.

<sup>9</sup> <https://www.gov.uk/government/publications/calculating-the-minimum-wage>

UK. However, the Devolved Administrations have powers through such orders to set wages at a higher rate for agricultural workers.

## Update on non-remit issues – wider Government policy

### Productivity Plan

43. Delivering a return to productivity growth is one of the key challenges for this Parliament, and the route to raising living standards for everyone in the UK. The UK is not alone in having a productivity challenge, but the scale of it is greater here than in our major competitors, and so is the opportunity.
44. The Productivity Plan, published on 10<sup>th</sup> July<sup>10</sup>, sets out an ambitious vision for where we want to be by 2020 and the pro-productivity agenda needed to deliver it. The Government's framework for raising productivity is built around two pillars. The first involves encouraging long-term investment in economic capital, including infrastructure, skills and knowledge. The second focuses on promoting a dynamic economy that encourages innovation and helps resources flow to their most productive use.

### Training and Skills

#### Apprenticeships

##### Apprenticeship key statistics

Over 2.3m apprenticeship starts last Parliament – commitment to 3m more this Parliament

440,400 starts in 13/14, of which 278,700 by young people (16-24)

Trailblazers - Over 1200 employers involved in over 140 sectors with 129 standards published (of which 45 are Higher and Degree Apprenticeships) and more than 220 new standards in development.

Apprenticeship NMW increased to £3.30 per hour from October 2015

<sup>10</sup> <https://www.gov.uk/government/speeches/fixing-the-foundations-boosting-britains-productivity>

### Apprenticeship key statistics

- 21% increase – biggest ever rise
- Most apprentices receive more than the apprentice minimum wage; a median basic hourly pay rate of £6.31 for Level 2 and 3 and £9.68 for Level 4 and 5 Higher Apprentices.

45. We are committed to 3 million new apprenticeship starts in this Parliament. Apprenticeships combine paid work with on and off the job training, qualifications and progression. They are an excellent way for young people to get the training and skills they need to enter and progress in work, move into higher level skills development and build fulfilling careers. The locations and sectors where apprenticeships are available are determined by employers offering apprenticeships and recruiting apprentices.
46. We are committed to and will continue to deliver employer-led apprenticeship reforms. Trailblazers, led by employers and professional bodies are designing apprenticeships that provide the skills that employers need. There are already over 1200 employers across 140 sectors involved with Trailblazers. 129 new standards have been published (of which 45 are Higher and Degree Apprenticeships) and more than 220 new standards are currently in development. The new apprenticeships are in a broad range of sectors from nuclear to fashion, law and defence.
47. We are developing a comprehensive plan for growth, including more work with large employers, more support for small businesses and a renewed emphasis on communications. There will be a greater role for the public sector and we will legislate to set apprenticeship targets for public bodies to meet.

### Apprentice NMW pay

48. The Government has increased the Apprentice NMW by 57p, taking the rate from £2.73 an hour to £3.30. This change came into force on 1 October. The Apprentice rate applies to apprentices who are under the age of 19 or in the first year of their apprenticeship. Approximately 75,000 apprentices will be affected by the increase, and this will cost employers an estimated £29.6 million (based on 2009 prices).
49. The Government is keen to see a growth in the quality of apprentices and to promote apprenticeships as a credible alternative to university for gifted young people. Employment remains an essential part of an apprenticeship and a larger increase in the Apprentice rate of NMW reflects the role of apprentices as productive members of an organisation's current workforce and as an investment in its future.



50. The Government wishes to maintain the attractiveness of Apprenticeships relative to other jobs without training by closing the gap between the Apprentice rate and the age related rates. This, alongside wider reforms, will encourage more young people to consider apprenticeships as a credible alternative to both higher education and jobs without training.
51. The Future of Apprenticeships in England: Implementation Plan in 2013 set out ambitious plans to improve the quality of apprenticeships to make them attractive for young people and more relevant to businesses. Apprenticeships already represent a positive return on investment; the National Audit Office Report<sup>11</sup>, published in February 2012, found that adult apprenticeships deliver £18 of economic benefits for each pound of Government investment.
52. Through these reforms, employers now have a greater role in designing apprenticeships; deciding what apprentices need to learn and how they will be assessed. In terms of quality and attractiveness, standards are designed by employers and include a synoptic assessment that will guarantee that the apprentice is fully competent. Standards developers will have more flexibility to choose the most appropriate way to assess Apprentices, for example through practical tasks, a viva or written exam.
53. The reforms also focus on increasing the rigour of apprenticeships with all apprentices having to prove their competence by passing a tough and independently assessed end-point assessment. In addition, the employer will be involved in deciding when an apprentice is ready to be assessed and apprentices will be graded according to their performance.
54. We have considered that raising the Apprentice rate could reduce employer demand for apprentices. As well as raising direct employer costs, employers must allow apprentices time off from their work to train. However, the Apprentice rate of £3.30 is still less than the NMW of a non-Apprentice 16 year old. In addition Apprenticeships provide substantial productivity benefits to employers and the Government's reforms should support a further rise in their productivity.
55. The LPC recommended that Government amend the regulations to exempt Higher Apprenticeships from the scope of the Apprentice Rate. The Government will assess the impacts of the Apprentice rate rise from October 2015 before taking any further action on this recommendation. Once the NLW is implemented in April 2016, those apprentices aged 25 and over, in the second year of an apprenticeship will be paid the NLW of £7.20.

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<sup>11</sup> [http://www.nao.org.uk/publications/1012/adult\\_apprenticeships.aspx](http://www.nao.org.uk/publications/1012/adult_apprenticeships.aspx)

## Degree Apprenticeships

56. As part of the Government's commitment to delivering 3m apprenticeships this Parliament there will be many more Higher and Degree Apprenticeships allowing young people to combine a world-class degree with a world-class apprenticeship.
57. Degree apprenticeships are a new integrated model of Higher Apprenticeship involving employers, universities and relevant professional bodies co-designing apprenticeships to meet full occupational competency and a degree (bachelor's or master's).
58. The new Degree Apprenticeships complement the existing degree model whereby current degrees can be used as part of the assessment process to ensure full competency in an occupation.
59. Higher and Degree Apprenticeships are widening access to the professions and developing higher level technical skills needed to improve productivity and support British industry to compete internationally. They are available in occupations as diverse as Solicitor, Software Developer, Accountant, Dental Technician and Space Engineer - and range from level 4 (certificate of HE level) all the way up to level 7, master's degree level.

## Training Levy

60. Employers in the UK underinvest in training compared to other countries and training has been in a general decline for the last 20 years. This decline is partly due to employer concerns that if they invest in training their employees, competing firms will free-ride on their investment.
61. Reversing the trend requires a step change, not just in the scale of the apprenticeship programme, but in the scale of its funding. This is why we are going to introduce an apprenticeship levy on all large firms. Putting employers at the heart of paying for and choosing apprenticeship training; and making a UK levy the norm as it is in over 50 other countries.
62. The money will be directly controlled by employers, and we will work with business on how to do this. A consultation on the operation of the levy closed on 2 October 2015 which engaged stakeholders on the implementation of the levy and its interaction with existing sector levies. Further details will be set out at the Spending Review and we will provide an update in the final evidence later in the year.
63. The Government is committed to reducing the number of young people not in Education, Employment or Training (NEET) and plans to invest £7billion in 2015-16 to fund education and training places for 16 to 19-year-olds.

## Youth Employment

### Youth Employment key statistics / information

There are 3.90 million people aged 16 to 24 in work, including 907,000 full-time students with part-time jobs.

Youth unemployment continues to fall on both the quarter and the year; 17,000 and 32,000 respectively. It now stands at 723,000 (15.6%); below the peak of 1.05 million in the recession. However it has been consistently higher than rates for older age groups.<sup>12</sup>

#### NMW rates raising in October

- 16 – 17 year old: from £3.79 to £3.87
- 18 – 20 year olds: £5.13 - £5.30
- 21+: £6.50 to £6.70
- Apprentice rate: £2.73 - £3.30

64. The Government is committed to reducing the number of young people not in Education, Employment or Training (NEET) and is investing £7billion in 2015-16 to fund education and training places for 16 to 19-year-olds.
65. Participation in education and training among 16-18 year olds has reached its highest level since consistent records began in 1994, with 81.8% participating in education or work-based learning (apprenticeships) at the end of 2014. The proportion of young people aged 16-18 at the end of 2014 who were in employment but not in education and training (NET) decreased to 6.3%, and the proportion 16-18 year olds NEET decreased to 7.3%. Both the NET and NEET figures are the lowest since consistent records began in 1994. These figures include the first cohort to be impacted by the raising of the participation age (further details below) and suggest that it is having a positive impact. The latest DfE statistics on participation and NEET can be found on gov.uk<sup>13</sup>.
66. The Government is working to ensure that all young people are able to get the skills they need to succeed in a competitive, high-skilled labour market and make a successful start in employment. This is being done through a range of programmes – the key programmes which are described in greater detail below are:

<sup>12</sup> <http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/september-2015/statistical-bulletin.html>

<sup>13</sup> <https://www.gov.uk/government/collections/statistics-need>

- raising the participation age;
- study programmes;
- work experience;
- technical qualifications;
- traineeships;
- the youth engagement fund; and
- the youth contract.

<b>Name of Programme</b>	<b>Age</b>	<b>Key components</b>	<b>Link to NMW</b>
Raising the participation age	16-18	The participation age has been raised so that young people are now required to continue in education or training until at least their 18th birthday. Young people can choose to participate through full-time education, a job or volunteering combined with part-time study, or by undertaking an apprenticeship or traineeship.	Apprenticeships must be paid NMW
Study programmes	16-19	Full time Programmes for all 16-19 students to help them move into their next step whether it be apprenticeship, higher or further education, or paid employment.	Exempt from NMW
Work experience	16-19	Non-qualification activity within the study programme.	Exempt from NMW
Technical qualifications	16	Technical qualifications at levels 2 and 3 supporting entry to a technical job role, progression to further technical studies or higher education courses.	Exempt from NMW

Name of Programme	Age	Key components	Link to NMW
Traineeships	16-24	An education and training programme of up to six months including work experience, employability preparation and English and maths.	Exempt from NMW
The youth engagement fund	14-17	Payment by results to organisation that keep potential NEETS in training or education	No impact on NMW, as no financial support is available to employers of young people or apprentices.
The youth contract	16-24	Targets disadvantaged young people to get them back into education, an apprenticeship or training,	Apprenticeship with wage incentive available to employers under certain conditions.

67. Further information on these programmes is provided in Annex A.

## Enterprise and Labour reform

68. The Government will provide a full economic assessment in its final evidence to the LPC. However the table below summaries key developments.

### Labour Market key statistics

31.09 million people in work in May to July 2015. 413,000 more people in work compared to the same period in 2014.

### Labour Market key statistics

- Employee's – 26.37 million (up by 505,000)
- Self- Employed – 4.51 million (down by 51,000)

73.5% of people aged 16 – 64 in work for May to July 2015.

Unemployment has decreased from 6.2% to 5.5% in the year to May to July 2015. UK unemployment is 0.4 ppts higher than the US, but 4 ppts lower than the EU average.

Unemployment related benefits count rate was 2.3% in August 2015.

- Working age inactivity rate has risen to 8.99 million people aged between 16 to 64 (not in work and neither seeking nor available for work).

## Enterprise Bill

69. The Enterprise Bill will cement the UK's position as the best place in Europe to start and grow a business. We will make sure every part of the country benefits from our growing economy and that everyone who works hard has the opportunities to succeed.
70. Over the next five years, the Government is committed to cutting a further £10 billion worth of red tape that burdens business through an ambitious deregulatory programme across all government regulation affecting business. The £10 Billion will be the Business Impact Target as required under the SBEE Act 2015. The Enterprise Bill will widen the scope to include the enforcement functions of national regulators within the Business Impact Target and simplify the way businesses deal with local authorities.
71. Payment disputes can stop businesses from developing their ideas, investing in growth and creating new jobs. The Bill will make it easier, quicker and cheaper for small businesses to resolve such disputes with larger companies by setting up a Small Business Commissioner. The Commissioner will tackle these issues through information and advice and referral to dispute resolution services. It will also have the power to look into complaints about poor payment practice and report its findings.
72. Encouraging businesses to invest in the skills of their staff is a vital part of the Government's plan to boost UK productivity. By protecting the term 'apprenticeship' in

law, the Enterprise Bill will ensure hard working apprentices have access to high quality training.

73. The Government also wants to re-position the public sector as a modern place to work. The Enterprise Bill will stop taxpayer-funded, six-figure payoffs and set targets for apprentice numbers – to make sure the public sector leads by example and invests in a highly skilled workforce.
74. The Enterprise Bill will:
- extend the Government’s ambitious target for cutting red tape and simplify the way businesses deal with local authorities
  - simplify and extend the Primary Authority scheme to make it easier for businesses to join and benefit from advice on regulatory compliance
  - help more businesses resolve payment disputes without the need for costly court action by establishing a Small Business Commissioner that can offer advice and mediation, and investigate complaints
  - require insurers to pay insurance claims within a reasonable time
  - reform the business rates appeals system
  - allow Ministers to support modern businesses by updating the Industrial Development Act
  - reward creativity, innovation and entrepreneurship by enhancing the protections afforded to intellectual property rights
  - protect the term ‘apprenticeship’ from misuse in law – so that people and businesses recognise apprenticeships as a high quality career path
  - enable public sector bodies to act as modern employers by capping exit payments
  - encourage public sector bodies to develop a skilled workforce for the future by setting apprenticeship targets
75. The Enterprise Bill demonstrates the Government’s commitment to backing British business and giving working people the chance to get on, at every stage of their lives.

## Trade Union Bill

76. Trade unions can play a constructive role in maintaining positive industrial relations. These modernising reforms will make strike laws fairer for working people and ensure strikes only happen as a result of a clear, positive decision by those entitled to vote.
77. The Government supports the right to strike but we need to get the balance right between the interests of unions and the interests of the majority of people who rely on the services provided in important public sectors. People have the right to expect that services on which they and their families rely and on which our safety and security

depend are not going to be disrupted at short notice by strikes that have the support of only a small proportion of union members. Parents want to know that they can drop their kids off at school because the schools will be open, that they can get to work on time because the buses and trains are operating normally.

78. We want to pass this fair law<sup>14</sup> to make sure that strikes are based on a clear majority of votes by a reasonable proportion of a union's members, and that they are based on up to date and audited membership lists, and state clearly the reason for the dispute.

## Zero Hours Contracts

79. Both Government and independent research has shown that when used appropriately, zero hours contracts have a place in today's labour market. This type of contract helps support business flexibility but also provides choice and opportunity of employment for young people, students, those with caring responsibilities or wishing to retire early. Research also shows that there are groups of people who choose to have a zero hours contract. It is not the case that everyone wants a 'regular' job.
80. The latest ONS Labour Force Survey (Q2 2015) estimates zero hours contracts make up around 2% of the labour market and provide an average of 25 hours work a week. A survey by CIPD ('Myth or Reality' Nov 2013) survey shows many individuals choose to work on a zero hours contract, and that they are more content than their counterparts in permanent employment.
81. Government has banned employers from using exclusivity clauses in zero hours contracts (26 May 2015). This means that an employer cannot prevent an individual on an individual on a zero hours contract from taking work elsewhere when they themselves do not guarantee hours of work.

## Agency Workers

82. Agency workers play an important role in labour markets across the world, providing flexible labour for businesses and work opportunities for individuals. In the UK, all agency workers are entitled to core 'worker' rights such as the NMW and protection from unlawful deductions from salary. Agency workers accrue additional protections through the Agency Worker Regulations 2010, ensuring that they receive equal entitlements to comparable permanent staff across a number of areas. Some of these take effect from day one, such as access to vacancies and facilities, with others taking

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<sup>14</sup> <https://www.gov.uk/government/collections/trade-union-bill>



effect once the agency worker has been with the same hirer and in the same role for 12 weeks.

83. The government continues to monitor the operation of these Regulations to ensure they are understood by employers and agency workers.
84. Since 5 January 2015 employment agencies and employment businesses have been prohibited from advertising jobs solely in other EEA countries without advertising them in Great Britain and in English. The Government will shortly be consulting on a proposal to extend this regulation by reducing the scope for employment agencies and employment businesses to fill vacancies here with people from overseas without advertising at all.

## Taxation and Benefits

### Cost to Business

85. The Government have announced a number of changes to tax which will have an impact on business. The increased NMW rates will of course carry a cost to some businesses. To recognise the effect on businesses, the Government are taking the steps outlined below.

#### NICs exemption expansion

86. At Autumn Statement 2014 the Chancellor announced that the government will abolish employer Class 1 National Insurance for apprentices under the age of 25 on earnings below the Upper Earnings Limit (UEL) from April 2016. Employers with employees under 21 will also no longer have to pay Class 1 secondary National Insurance contributions on earnings up to the Upper Secondary Threshold for those employees.
87. The policy benefits those under the age of 25 in order to improve their prospects on the employment market. There is a strong policy rationale for focusing help on reducing youth unemployment, and this measure aims to help those at the younger end of the employment scale where unemployment levels are more acute.
88. As a result of this measure:
  - It will be over £500 a year cheaper to employ an apprentice earning £12,000.
  - It will be over £1,000 a year cheaper to employ an apprentice earning £16,000.
  - This will apply to both existing employers and those taking on a new apprentice.

89. The technical consultation on draft secondary legislation for the zero-rate of Class 1 employer National Insurance contributions (NICs) for apprentices under 25 was launched on 24 July 2015; and closed on 18 September 2015<sup>15</sup>.

### **Corporation Tax**

90. In the previous Parliament the main rate of corporation tax was cut from 28% to 20% (currently joint lowest in the G20). The small profits rate was also cut to 20% and the two rates were merged to simplify the tax regime. Overall the cuts delivered so far since 2010 will save businesses £10bn a year from 2016-17. In this parliament the Government is going to go further, and cut the rate to 19% in 2017 and 18% in 2020. These cuts will benefit over a million businesses. They will save businesses £6.6bn by 2021, and give the UK the lowest rate of corporation tax in the G20, supporting investment, productivity and growth.

### **Employment Allowance**

91. From April 2016, the Employment Allowance will rise from £2,000 to £3,000 to further reduce the burden of National Insurance Contributions and help businesses take on more staff. A firm will now be able to employ 4 people full time on the new NLW and pay no National Insurance at all in 2016/2017.

### **Annual Investment Allowance**

92. From January 1 2016, the Annual Investment Allowance will be set at a new permanent level of £200,000. This will give firms 100 per cent relief on investment in qualifying plant and machinery and therefore support and incentivise long-term investment. It will particularly benefit small and medium sized businesses as well as firms in machine intensive industries, such as those in the agricultural sector.

## **Costs to Individuals**

### **Welfare - Universal Credit**

93. Universal Credit (UC) provides a new single system of support for working-age people who are in or out of work. It aims to reduce the number of workless households by reducing the financial and administrative barriers to work that exist in the current system of benefits and tax credits.
94. Bringing together 6 benefits into 1, Universal Credit represents the most fundamental reform of welfare since its inception and will mark a turning point towards a system where work will always pay more than a life on benefits.

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<sup>15</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/448063/Technical\\_Consultation\\_-\\_NICs\\_Definition\\_of\\_Apprentice.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/448063/Technical_Consultation_-_NICs_Definition_of_Apprentice.pdf).

95. Tax credit expenditure more than trebled in real terms between 1999-00 and 2010-11, with total expenditure in 2014-15 estimated to be around £30 billion – an increase of almost £10 billion in real terms over the last 10 years. UK expenditure on family cash benefits is the highest in the OECD, and was double the OECD average in 2011. 9 out of 10 families with children were eligible for tax credits in 2010. As a result of the reforms undertaken in the last Parliament, 6 out of 10 are eligible currently.
96. The government believes that now is the best time to address this growing expenditure if the welfare system is to be put on a sustainable footing. Tackling tax credit spending is part of properly addressing the root causes of low pay, with the new NLW and a more generous tax system to help people earn more and keep more of what they earn, rather than addressing only the symptoms of the problem by subsidising low pay through the benefit system.
97. Universal Credit began to roll out in April 2013 and is now live for single unemployed claimants in over 390 jobcentre areas across Great Britain covering over 200 local authorities - Universal Credit is also available to couples and families in 96 of those areas. The new service continues to roll-out in line with its safe and secure delivery plan.
98. By the end of this year Universal Credit will be live in over 500 jobcentres with it available in every jobcentre by April 2016.
99. Underpinning this we are developing the digital technology which will enable rollout of Universal Credit to all claimant types. This is currently being tested in a few postcode areas in Sutton and Croydon. Later this year, we will extend this testing to further postcodes and will start to expand the full Universal Credit service from May 2016. This gradual expansion of the digital technology allows us to test and learn in a controlled environment.
100. New claims to existing legacy benefits will begin to close from 2016. The number of claims to legacy benefits will then progressively decline. Following this we will start to migrate the remaining legacy claims to Universal Credit.

# NMW Compliance and enforcement

## Summary

101. The Government is committed to increasing compliance of the NMW through the provision of guidance and support to employers and workers. We have taken specific action targeted at sectors where we know compliance is an issue. This year, we launched a campaign in the hairdressing sector and communications activity to tackle the high level of non-compliance amongst apprentices. The Government continues to respond to every complaint they receive and prioritises complaints from Apprentices and Interns. The Government also undertake intelligence-led, proactive enforcement, and this year has focused on the social care, retail and hairdressing sectors.
102. Where employers have been found to break the rules, the Government will continue to take a tough approach through its civil and criminal sanctions. Employers will not only pay a penalty of up to £20,000 per worker, but will also be named publically and even face criminal prosecution.
103. The Government has increased the 2015/16 enforcement budget by £4 million, taking the total for 2015/16 to £13.2million. The extra money will fund a dedicated force to investigate abuse by the most exploitative employers and deploy the range of sanctions available, including penalties, prosecutions and naming and shaming. The additional funding will also be used to help us to do more to educate employers in high-risk sectors to help promote compliance and ensure those most at risk are paid correctly.
104. The Government is committed to ensuring that those who are entitled to the NMW (and NLW from April 2016) receive it. On the 1<sup>st</sup> September, the Government announced a package of measures to strengthen the enforcement of the NMW, these include;
- **increasing penalties from 100% to 200%** of the arrears employers owe. The penalty is reduced by half if employers pay within 14 days.
  - setting up a **dedicated team** in Her Majesty's Revenue and Customs (HMRC) focused on **tackling the most serious cases** of wilful non-compliance.
  - **increasing the enforcement budget** in preparation for the National Minimum and Living Wage from April 2016
  - the creation of a statutory **Director of Labour Market Enforcement and Exploitation**, who will set a single set of priorities for the enforcement bodies across the spectrum of non-compliance.
  - a continued commitment to **respond to every complaint** made by a worker and will provide anonymity where requested.

- **Improvements to the guidance and support** available to all firms and work with payroll providers to embed checks within payroll software.
- Ensure every **criminal breach** of NMW law is **considered for Director Disqualification**.

## Introduction

### Extent of non-compliance with the NMW

105. Non-compliance can be estimated through the Annual Survey of Hours and Earnings (ASHE). ASHE is a survey of employees completed by employers which we can use to look at workers earning at or below the NMW rate. This is not a complete measure of non-compliance however as there are legitimate reasons to be paid below the NMW, for example those living in accommodation provided by the employer. In addition, as results from ASHE are based on a sample of employee jobs in Pay-As-You-Earn income tax schemes from the Government, it does not include all workers who earn below the Lower Earnings Limit.
106. In 2013, the Government changed the criteria that determine how businesses are obliged to report employees' earnings via their PAYE schemes. Until this change, businesses were only required to operate PAYE for employees whose earnings were above the Lower Earnings Limit (LEL) for National Insurance contributions, currently £111 per week, and they did not report all new jobs until the end of the tax year. The new rules require employers to report the details of all of their employee jobs via their PAYE schemes, whatever their earnings, provided that they have at least one employee earning above the LEL. In addition, employers must report for all jobs in 'real-time', meaning that they cannot wait until the end of the tax year. This new system is known as 'Real-Time Information' (RTI). In theory, it is possible that the move to RTI results in a coverage change for the ASHE sample.
107. However, 2014 is not the first year in which the ASHE sample includes jobs affected by RTI. Many employers, particularly large businesses, chose to report many or all such jobs in previous years. As a consequence, ONS judges that the impact of the move to RTI on the low pay estimates in 2014 is negligible.
108. The Final Evidence Report submitted to the LPC in January 2015 (<https://www.gov.uk/government/publications/national-minimum-wage-final-government-evidence-for-the-2015-low-pay-commission-report>) contains analysis showing the number of workers paid below the NMW by age group, this analysis was based on ASHE 2014, which is still the latest data, therefore it has not been reproduced here. We will provide an update in the next Final Evidence Report.

## Apprentice Pay Survey

109. The Apprentice Pay Survey was last run in 2014 and the main findings were reported in the January 2015 Final Evidence, the findings have not been reproduced here. The next Apprentice Pay Survey is scheduled for 2016.

## Enforcement body

110. On the 1 September the Government announced plans to create a statutory Director of Labour Market Enforcement and Exploitation, who will set a single set of priorities for the enforcement bodies across the spectrum of non-compliance, from criminally-minded exploitation to payroll errors. Bringing the enforcement bodies under the coordination of one Director will allow more data sharing through an intelligence hub to provide a single view of risk. The Government also announced plans for two consultations – firstly, on the introduction of a new offence of aggravated breach of state-enforced labour market legislation in the Autumn and secondly, on providing the Gangmasters Licensing Authority with additional investigation powers and a wider remit to tackle serious labour market exploitation more effectively.
111. The Government have developed proposals which will deliver this commitment and a consultation will be published in the Autumn.

## Compliance and enforcement action – Government targeting

### **The Government is fast-tracking complaints from apprentices, interns, social care workers and hairdressers.**

112. The Government is undertaking targeted enforcement in the social care, hairdressing and retail sectors based on third party information, complaints, information from the Better Business Compliance Partnerships, and focused interventions.
113. In July 2015, the Government launched a NMW campaign targeting the hairdressing sector. The campaign aims to drive voluntary behaviour change, giving employers the opportunity to check they are paying their employees correctly and ensure any that they are paid any outstanding arrears. It has been planned and is being delivered in partnership with trade bodies. The Government has previously successfully deployed this campaign methodology to tackle tax risks, but this is the first such initiative in NMW compliance. The campaign will be followed by an evaluation by the Government to measure the success of this approach.

### **Raising awareness of the NMW – for apprentices and generally**

114. We have initiated a programme of work that aims to increase the awareness of NMW among the Apprenticeship group.
115. We are targeting communications to apprenticeship employers directly and via employer groups. We are also issuing guidance to employers and apprentices through the Skills Funding Agency and through local training providers.
116. So far in 2015, we have:
- provided NMW information to the Apprenticeship Ambassador Network, a group of employers who aim to drive engagement and promote the role of apprenticeships; and
  - provided NMW information to the Apprenticeship ‘Trailblazer’ Group. BIS send a regular email to around 250 of the 1,000 employers leading the way in designing apprenticeships standards to improve quality; and
  - included NMW information in a newsletter sent to the Skills Funding Agency’s entire business audience encouraging employers to review advertised rates of pay to attract suitable candidates. Vacancies advertised around the NMW typically remain as the hardest-to-fill.

#### *Wider NMW communications*

117. The Government has taken steps to increase its communication of NMW information, with the aim to improve the understanding and compliance with the NMW rules. Communications actions taken include:
- The Government plan to focus on Apprentices due to evidence from the 2014 Apprentice Pay Survey, as part of wider NMW and NLW communications activity. This will be coordinated with the Government’s Apprenticeship communications campaign.
  - The Government will raise awareness of the October 2015 changes to the NMW wage rates. These communications will deliver a campaign in-house which integrates stakeholder partnerships, social media, online and PR. The campaign will focus on rights and compliance, targeting the most low paid sectors and regions. This will include a campaign for the October 1 NMW rate change, followed by a campaign targeting seasonal workers.

- Wide press coverage of the NMW as a result of both the July 2015 Budget and also the increased enforcement measures announced on the 1 September<sup>16</sup>.
- The NMW Facebook account<sup>17</sup> is used to provide information regarding the NMW and related labour market topics. The February 2015 Naming and Shaming Facebook post reached an audience of almost 400,000 people. The NMW Twitter account is also updated frequently<sup>18</sup>.
- Since the publication of the last evidence report, we have published new guidance on calculating the NMW. We have also made regular updates to the relevant pages on gov.uk<sup>19</sup>.

### Education, advice and leverage

118. The Government aims to work with intermediaries to provide upstream education and advice supporting employers to become compliant. The Government carried out a number of awareness raising and education projects over 2014/15; includes:
- Two digital education products: a 30-minute webinar, broadcast in March and titled '*NMW for employers*', set out the basic rules for compliance with NMW law and highlighted common errors and pitfalls to avoid. The webinar pointed employers to further online information on gov.uk and the ACAS helpline, and has had 776 views. The webinar was followed up by a 3 minute YouTube video release in July 2015 titled '*Are you paying the National Minimum Wage?*' providing further information to employers and workers on NMW, which has had over 800 views (at the end of September 2015).
  - Four regional employer conferences for the care sector. The Government worked with the organisers, the UK Home Care Association, to deliver presentations on NMW compliance.
  - Liaison with a payroll software developer for the care sector, and assisted in their design of a payroll software package that incorporates NMW compliance controls.
  - Collaboration with UK Music and other groups to create an Internship Code of Practice to help employers and workers across the music industry develop fair internship policies that respect every young person for their talent not their ability to work for free.

<sup>16</sup> <https://www.gov.uk/government/news/measures-to-ensure-people-receive-fair-pay-announced>

<sup>17</sup> <https://www.facebook.com/#!/nmwage?fref=nf>

<sup>18</sup> <https://mobile.twitter.com/NMWgovuk>.

<sup>19</sup> <https://www.gov.uk/government/collections/national-minimum-wage>



119. An integral part of focused interventions is providing feedback and guidance to employers to inform the self-review of their employment practices. Employers have reacted positively to this new approach.

## Strengthening Deterrents

### NMW Penalty increase

120. The Government has increased the penalty imposed on employers that underpay their workers in breach of the NMW legislation. The increase in the penalty is intended to deter such employers and ensure that workers are correctly paid.
121. The first increased NMW penalty came into effect on 7 March 2014. This revised penalty applies to any notice of underpayment relating to a pay reference period beginning on or after 7 March 2014. The penalty percentage has been increased from 50% to 100% and the maximum penalty has increased from £5,000 to £20,000.
122. The second increase in penalty came into force on 26 May 2015 and changes the maximum penalty of £20,000 from per notice to per worker. This means for pay reference periods beginning on or after 26 May 2015 the penalty will be the sum of 100% of the underpayment owed to each worker, up to a maximum of £20,000 per worker.
123. Employers found to have underpayments of more than £20,000 in any pay reference periods beginning on or after 7 March 2014 and ending prior to 26 May 2015 not only pay the new higher level of penalties but will also receive one notice of underpayment per worker or group of workers who have been underpaid by £20,000 or more.
124. For pay reference periods beginning on or after 26 May 2015, the calculation is the same as for the periods beginning on or after 7 March 2014, but one notice of underpayment will be issued for all the workers covered by the notice, even if the total penalties exceed £20,000.
125. As set out earlier in this chapter, the Government announced that penalties will be increased to 200% of arrears employers owe. The penalty is reduced by half if employers pay within 14 days.

## **Naming Scheme**

126. The naming scheme is now firmly established as part of the civil sanctions used to deter employers from breaking NMW rules. Since the introduction of the scheme, BIS has named 285 employers, who have between them owed £788,000 arrears and paid penalties of over £325,000.
127. BIS will name all employers who owe their workers over £100, and are not exempted by the published criteria (that naming carries a risk of personal harm to an individual or their family, that there would be a national security risk because of naming, or that naming would be against the public interest).
128. BIS has named regularly during 2015, with press notices issued in January, February, March, and July. We will be naming other employers soon.

## **Enforcement Operations**

129. The Government approach to NMW enforcement is a key contributor to its wider efforts to tackle the hidden economy. By making sure that businesses pay the taxes that they owe and pay their workers the wages to which they are entitled, the Government is levelling the playing field for compliant employers.
130. Since the Government began enforcing the minimum wage in April 1999, it has identified £57.7m in arrears for over 255,000 workers during more than 67,000 employer interventions.
131. In 2014/15, the Government recovered £3.3 million of arrears for 26,000 workers. The number of workers helped is up from 22,610 – a 16% increase on 2013/14. This reflects both the introduction of new types of intervention, and a new focus on improving the experience of those employees whose complaints are under investigation – through both the prioritisation of completing older cases, and the prevention of newer work from aging, meaning more cases can be tackled.
132. By the end of August 2015, £2.26 million in arrears had been identified for 23,271 workers for the financial year 2014/15.

133. The Government works to the following priorities:
- Every NMW complaint is considered and the identified arrears are recovered, in line with the agreed approach to civil enforcement.
  - The time taken to investigate complaints is minimised and the process for investigation supports resolution at the earliest possible stage.
  - Efficiency improvements are made year on year.
  - Fast tracking complaints from problematic sectors: interns and apprentices for 2014/15, with social care and hair & beauty added as new priority sectors for 15/16. In the 2014/15 priority sectors over 400 cases were completed, identifying over £0.5m in arrears for over 800 workers.
  - Seafarers were also identified as a priority for 2014/15, but the Government did not receive any worker complaints from this sector.
134. The Government received 3,180 complaints to the Pay and Work Rights and Acas (launched in April 2015) Helplines in 2014/15; a 40% increase on 2013/14. 2,204 cases were completed in 2014/15, which is over 50% up on 2013/14 (1455). 735 cases identified arrears for workers.
135. The increase in the number of cases completed reflects both the extra resources invested in NMW enforcement, as well as the Government's increased focus on improving the experience of workers who raise NMW complaints. Over the course of 2014/15, the Government has improved front-end processes, meaning that new complaints are investigated faster.

### **Developing a suite of interventions**

136. The Government's approach has evolved over recent years, using complaint-led face-to-face interventions alongside a suite of interventions including nudge letters; street sweeps; taskforces and multi-agency operations. This suite of interventions means that the Government can tailor the compliance response to the range of NMW risks – from promoting good compliance, to preventing errors and responding to deliberate non-compliance.

137. The introduction of focused intervention, in which employers are required to self-correct under the Government scrutiny, has increased efficiency. This approach has reduced both the average time it takes from beginning an investigation to case closure from 170 to 82 calendar days – a 52% reduction.
138. An integral part of focused interventions is the self-correction of arrears of NMW wage by employers. The Government checks to make sure that employers have fully self-corrected. If they have not, and the Government believes other workers are likely to have been underpaid, the employer will be investigated again.
139. Since 1<sup>st</sup> April 2015, twelve employers have notified self-corrected arrears, identifying £472,000 for 2,836 workers.
140. The NMW Campaign to target the hairdressing sector gives employers the opportunity to self-correct and ensure they pay the NMW. By volunteering to disclose the arrears identified and informing HMRC through the campaign, employers pay all of the arrears owed at the current NMW rate. Employers also need to ensure that they continue to pay their employees the correct NMW rate in future.

### **Project Based Targeted Enforcement**

141. Each year the Government completes a number of pro-active risk-based investigations across a range of trade sectors to gain assurance on employers' compliance with the NMW. In some instances NMW Compliance Officers work alongside enforcement officers from other government agencies to ensure a joined up approach is taken to address the risks.

#### *Social care*

142. The Government continues its enforcement action in the care sector in response to both ongoing complaints received from care workers and proactive risk-based targeted enforcement. As of 30 August 2015, there were 37 open investigations in the care sector. Since 1st April 2015, complaints from care workers are fast tracked for investigation, and the progress and outcomes of these cases are carefully monitored. A further 29 investigations into the sector are open through targeted enforcement action, with more to follow. As well as investigating worker complaints, in 2014/15 the Government:
- met with Unison officials to discuss compliance issues in the care sector; and
  - held further discussions with senior officials and Ministers at the Department of Health about the root causes of NMW non-compliance in the care sector, and the link to the local authority tendering process for care provision.

143. The Department of Health, HMRC and BIS carried out joint work on increasing awareness amongst care workers and employers of the NMW, through a series of advertisements in trade journals. Additionally, the Government is jointly working with the Association of Directors of Adult Social Services (ADASS) to look at the additional responsibilities on local authorities in the commissioning process following the introduction of the Care Act (2014).

#### *Retail Sector*

144. The retail sector presents a high level of NMW risk, employing large numbers of workers who are paid at or around the NMW. Investigations have centred on addressing non-compliance caused by deductions from workers' pay for staff uniforms, and the non-payment of working time in certain situations, such as attending training events.

#### *Interns*

145. Internships are a key risk area for the Government, and were identified by BIS as a priority group in 2014/15. Complaints from interns are therefore fast-tracked for investigation by the Government.
146. In 2014/15, the Government followed up on the 2013/14 nudge letter campaign with enforcement visits to 24 employers. During these visits, the Government did enforcement checks, and carried out awareness-raising activity to ensure future compliance.

#### **Street sweeps**

147. Street sweeps are short operations that target an area where one sector dominates.
148. Between October 2014 and March 2015, the Government conducted 4 street sweeps visiting 100 premises in conjunction with Employment Agency Standards Inspectorate staff, and latterly the Pensions Regulator, covering locations in the West Midlands, Teesside, Sheffield, and Manchester/Salford. A further operation in June 2015 saw the Government visit 27 businesses in Norwich.
149. NMW risks were identified in over 10% of the premises visited.

150. In 2015/16, the Government will continue to focus street sweeps on the employment agency sector, working in a number of geographical locations.

### **Task forces**

151. The Government Taskforces use intelligence and comprehensive risk data to target businesses and/or sectors where there are the greatest indicators of risk across the spectrum of tax evasion and non-compliance – in NMW, Income Tax, PAYE/NIC, VAT, and others. NMW enforcement teams are jointly working with Government tax colleagues on a number of specific projects, including restaurants, the rag trade, and dormant companies.
152. Taskforce teams will typically visit traders in the designated sector during business hours, with a view to checking compliance across a range of different tax and NMW risks. They are often regional, but can be escalated to the national level. This holistic approach to business risk has been shown to support the identification of NMW arrears and has a significant deterrent impact on non-compliance. These visits will often contribute to the Government's wider priorities on clamping down on illegal working, modern slavery and other forms of exploitation.

### **High profile multi-agency operations**

153. These are large operations, involving a wide variety of other agencies working with the Government to tackle NMW failure alongside related offences including illegal working and modern slavery. They typically involve large numbers of officers from different agencies carrying out an intense schedule of visits, in an effort to find multiple forms of non-compliance. This type of work is an integral part of our approach to tackling NMW non-compliance across the UK.
154. The Government's NMW enforcement teams have been involved in activities arising from the Better Business Compliance Partnerships (BBCP), a Cabinet Office-led initiative to work across government agencies and local authorities, focusing particularly on the migrant worker population. The partnership included local authorities in Cornwall, Ealing, Hertfordshire, Chester/Cheshire, and Manchester/Salford. These operations have uncovered offences connected to illegal working, modern slavery, potential criminality e.g. counterfeit goods, and NMW issues for legal migrant workers.
155. In 2015/16, the Government will continue to work with other agencies on joint operations, tackling NMW underpayment in conjunction with other forms of illegality.

## Employment Tribunal Cases and County Court Judgements

156. The Government publicises, where possible, occasions where the Government has been required to pursue debts on behalf of workers too Count Court and have obtained a County Court Judgement. The Government also publicises where it has been successful at an Employment Tribunal (ET).

### Prosecutions

157. The Government has reviewed its prosecution policy. The Government will establish a dedicated team of skilled compliance officers to investigate cases of wilful non-compliance and deploy the range of sanctions available, including prosecutions.

## NMW specific compliance topics

### Seafarers

158. The Government are committed to improving the regulation of the NMW were appropriate, to take account for complex situations involving low-paid workers.
159. As part of the ongoing review of the Equality Act 2010, led by the Department for Transport, we have analysed concerns raised by members of the RMT Parliamentary Group and other trade union representatives about the application of the NMW in the seafarer sector.
160. Most workers in the United Kingdom over compulsory school leaving age are entitled to at least National Minimum Wage rates. A worker is defined in the National Minimum Wage Act 1998, section 54(3) as someone who has entered into or works or worked under:
- A contract of employment or
  - Any other contract by which the individual undertakes to perform work or services personally for someone else. The contract can be express (whether agreed orally or in writing) or implied.
161. However, the international nature of the maritime industry can often make the position of the NMW complex in terms of entitlement, jurisdiction and enforcement.
162. The Government will shortly be publishing updated guidance material regarding seafarers. The purpose of this guide is to outline the legal requirements of the Equality Act 2010 and National Minimum Wage Act 1998 in relation to Seafarers. This guide will contain examples of scenarios when the Equality Act 2010 and UK NMW are applicable to Seafarers either working in the UK or on a UK ship. The guide will also

indicate certain situations when a Seafarer may be paid at a different rate to the UK NMW.

### Statistics on NMW Enforcement 2014/15

<b>Statistical analysis</b>	<b>2014-15</b>
Arrears	£3,291,529
Workers	26,318
Male	6,241
Female	20,077
Cases / Interventions	2,204
Arrears per case	£1,493
Arrears per worker	£125
Strike Rate	33%
Cases with arrears	735
Penalties charged	705
Penalties charged £s	£934,660
Average workers per case	12



# Annex A – Further information on Youth Employment

## Raising the Participation Age (RPA)

1. The Education and Skills Act 2008 raised the participation age in two stages so that pupils who left year 11 in summer 2013 were required to continue in education or training for at least a further year, and pupils who left year 11 in summer 2014 were the first required to continue until at least their 18th birthday.
2. The Education and Skills Act 2008 raised the participation age in two stages so that pupils who left year 11 in summer 2013 were required to continue in education or training for at least a further year, and pupils who left year 11 in summer 2014 were the first required to continue until at least their 18th birthday. Young people have a choice about how they participate: through full-time education, a job or volunteering combined with regulated part-time study, or by undertaking an apprenticeship or traineeship.
3. The definition of the minimum required ‘full-time’ education for RPA is 540 guided learning hours. Those hours can be made up of study towards an accredited qualification, and any activities suggested within the principles of 16-19 study programmes (such as work experience and tutorials).
4. With regard to young people meeting the duty to participate through working, with part-time study alongside, then the work must be a minimum of 20 hours per week and the part-time accredited education or training must be at least 280 guided learning hours per year – this is about one day per week but can be flexible to fit around working hours. Volunteering, employment, self-employment and holding an office count as full-time work for the purposes of RPA. Further information on RPA can be found here<sup>20</sup>.
5. There are no duties on employers in relation to RPA, so there will be no action taken against them if their young employee(s) fail to undertake part-time training. Whilst young people are under a duty to participate, employers are not under an obligation to provide or arrange that training. The vast majority of 16 and 17 year olds already continue in some form of education or training and there will be no new costs to employers as a result of RPA.

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<sup>20</sup> <https://www.gov.uk/government/policies/increasing-opportunities-for-young-people-and-helping-them-to-achieve-their-potential/supporting-pages/raising-the-participation-age>

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

## Study programmes

7. From August 2013, all 16 to 19-year-olds in education institutions have been on a study programme aimed at giving them the best opportunity to move into higher education, further training, an apprenticeship, or secure skilled employment. Study programmes can be academic or vocational or a mix of the two, and will ensure that young people focus on those areas that employers value most – English and maths for those that have not yet achieved a GCSE grade C by age 16, substantial qualifications and work experience.

## Work experience

8. Students undertaking work experience are exempt from the NMW because they are not classed as workers. This exemption will apply provided that schools, colleges and training providers observe the study programme funding requirements that state they must plan, organise and supervise the students' work experience placements.
9. In August 2013 we reformed the post-16 curriculum and funding system to incentivise education and training providers to offer high quality work experience to young people as part of 16-19 study programmes. The time spent by schools and colleges in organising work experience is funded at the same level as time spent on taking qualifications. This has been achieved by shifting the funding system to pay per student rather than per qualification delivered.
10. The Government has made it easier for employers to provide opportunities for young people by:
  - producing simpler and clearer [health and safety guidance](#) for all those involved in work experience;
  - securing commitment from the insurance industry to treat work experience students as employees so that they will be covered by existing employers' liability compulsory insurance policies; and
  - changing [legislation](#) so that employers no longer need to carry out DBS checks on staff supervising young people aged 16 to 17 on work experience.

## Technical qualifications

11. The Government has introduced three new categories of technical and applied qualifications for 16-19 year olds. Level 3 technical and applied qualifications taught from September 2014 and eligible to count in performance tables from 2016 onwards are categorised as either tech levels or applied general qualifications.
12. Tech levels are for students wishing to specialise in a specific technical occupation or occupational group. All tech levels are backed by at least five employers or a relevant industry body. Examples of firms backing tech levels include John Deere, Lovell, Proctor and Gamble and Kawasaki.
13. Applied general qualifications are for students wishing to continue their general education at advanced level through applied learning and are backed by at least three universities.
14. Technical certificates are level 2 qualifications that will be taught from September 2015. Technical certificates cover occupations where employers recognise entry at level 2 or where a level 2 qualification is required before students can progress to a tech level.
15. Technical qualifications for 16-19 year olds will need to meet the employer involvement requirement. All qualifications meeting the full technical certificate standard and tech level standard must include work-based placements, projects or other activities that involve employers.
16. [Technical Guidance](#) published in June 2014 sets out the full requirements that all Tech Levels will need to meet to be included in 16-19 school and college performance tables from 2018.

## Traineeships

17. Traineeships are an education and training programme involving work experience which aim to help young people prepare for an apprenticeship or other sustainable employment. The programme has been available since August 2013 and is delivered by education and training providers for young people aged 16-24, (and up to 25 for young people with a Learning Difficulty Assessment or Education, Health and Care Plan).
18. Traineeships covers England only and was introduced in response to employer concerns that many young people who apply for apprenticeships and other employment lack the skills, behaviours and experience employers are looking for. The programmes last a maximum of 6 months and the core content is:

- a. A substantial, high quality work experience placement with a real employer to give the young person a chance to develop workplace skills;
  - b. A focused period of work preparation training. This will focus on areas like CV writing, interview preparation, job-search, self-discipline and inter-personal skills; and
  - c. English and Maths for young people without a GCSE A\*-C or, for aged 19 and above, those without a GCSE A\*-C or a Functional Skills Level 2 qualification. These are seen as crucial employability skills.
19. Providers and employers have the freedom to bring these elements together in the best way to engage and support individual trainees.
20. The core target group for traineeships are young people who:
- are not currently in a job and have little work experience, but who are focused on work or the prospect of it;
  - are 16 to 24 and qualified below Level 3; and
  - providers and employers believe have a reasonable chance of being ready for an apprenticeship or other employment within six months of engaging in a traineeship.
21. Traineeships are a route to apprenticeships. They are part of study programmes for 16 to 19 year olds and part of the skills offer for young adults. The 2015 to 2016 Framework for Delivery sets out how the programme will be delivered from August 2015 is published [here](#).

## Youth Unemployment

22. The [Youth Engagement Fund](#) targets 14-17 years olds who are either at risk of or have already become NEETS. The fund is provided through social impact bonds (SIB), allowing investors to fund innovative initiatives to support young people improve their educational achievements and employability. Some young people who have been helped as part of this fund may later take up an Apprenticeship or regular employment. However, under this fund no money is available to employers to support the cost of taking on an apprentice or young worker.

## JobCentre Plus Support for Young People

23. Since March 2012 and throughout the recession DWP has provided additional support, over and above the standard Jobcentre Plus offer, to young people that has included:

- extra advisor time to improve job search skills
  - a referral to the careers service within 3 months
  - work experience placements
  - referral to a sector based work academy place (training, work experience and a guaranteed interview).
24. This additional support for young people provided through Jobcentre Plus is funded until March 2016.
25. Each young person on benefit receives support tailored to their needs, for example referrals to Apprenticeships, to other jobs, traineeships, skills training and work experience.

### Outcomes for Work Experience and Sector-Based Work Academies

26. Between Jan 2011 and November 2014 DWP has provided 336,300 work experience and sector-based work academy pre-employment training opportunities for 18-24 year olds.
27. After 21 weeks the 3,500 participants aged 19-24 who started placements between January and May 2011 were 16% more likely to have left benefits and on average spent 5 days less on benefit and 8 days more in employment compared with non-participants.
28. A survey of young people taking part in work experience showed that it had provided them with new skills, and increased their confidence. Over 80% of young people said it had made them more attractive to employers and about 40% report getting a job afterwards.

### Encouraging firms to take on young people

29. Employers can get help with the costs associated with employing young people. In England the Apprenticeship Grant for Employers provides a £1,500 payment to eligible employers taking on a new apprentice aged 16-24. There are some variations on this offer in Sheffield, Manchester, Leeds and London. Employers can also claim employment allowance which is a reduction in the amount of National Insurance Contributions (NICs) they pay for their employees by up to £2000. From April 2015, it will also be cheaper for businesses to employ young people because NICs will be abolished for under 21 year olds earning up to the upper earnings limit of £42,285 per annum.

30. Movement to Work is an employer-led initiative which is helping young people aged 18 to 24 years old into opportunities that will move them nearer to the world of work. Their aspiration is to offer 100,000 work experience/training opportunities over the next 2 years, and to encourage employers across the country to do more to help unemployed young people. Further information can be found at <http://www.movementtowork.com>.

## **Youth Obligation within Universal Credit (UC) for 18-21 year olds**

31. We know that most young people claim benefit for a short time: over two-thirds of new claims to Jobseeker's Allowance by people aged 18-24 end within three months and over 85 per cent within six months. We also know that, too often, young people end up cycling in and out of benefits from an early age. We want to find better ways to enable young people to move in to and stay in meaningful work.
32. To tackle this head-on, we are introducing a new Youth Obligation from April 2017 to support every young person aged 18-21 who finds themselves out of work. We want to ensure that young people are given the support, skills and experience to motivate them to move into work, fulfil their potential and make a contribution to their community without slipping into a life on benefits. The new Youth Obligation will help young people develop skills and experience to get on in work.
33. From day 1 of their claim young people will participate in an intensive period of support, learning job search and interview techniques and doing structured work preparation.
34. After 6 months they will be expected to apply for an apprenticeship, a traineeship, gain work-based skills employers value, or go on a work placement to give them the skills they need to get on in work.
35. The Youth Obligation will be introduced from April 17 and will be fully integrated with Universal Credit, ensuring that work always pays.

## **Additional Support**

36. To help young people get the support they need for a successful career, we are introducing Jobcentre Plus support for schools, starting in Birmingham this year in advance of a pathfinder. This will be extended across England from 2016. Jobcentre Plus advisers will provide advice on the skills employers are looking for and routes into work experience, traineeships and apprenticeships. This is a radical new step to getting young people engaging with the labour market and thinking about their future before they can fall into the benefits system.

## Youth Contract

37. The Youth Contract is part of the Government's Participation Strategy for young people. The Youth Contract for 16 and 17-year-olds supports disengaged young people to move into education, training or employment with training. It is contributing to the Government's overall commitment to full participation for this age group as we raise the participation age to 17 in 2013 and 18 in 2015. This programme of additional, individualised support is focused on young people who are NEET. Delivery of the programme began in September 2012.
38. The purpose of the Youth Contract programme for 16- and 17-year-olds is to engage young people who are hardest to reach and support them into education, training or a job with training. Delivery of the programme across England began in September 2012. This programme operates to the end of 31 March 2016 and recruitment to the programme ceased on 31 March 2015.
39. For 18 to 24-year olds, the Youth Contract is a flexible package of support designed to give young people the skills they need to get into work. This aspect of the scheme is due to close on 31 March 2016.

## Student maintenance and Higher Education

40. The number of students from disadvantaged backgrounds going to university is at an all-time high and making higher education available to all who are qualified and wish to study is a top priority.
41. There is evidence that students are more concerned about the level of support they receive while studying than the long-term repayment of their income contingent loans. Our changes respond to recent concerns expressed by the NUS and the Universities UK Student Funding Panel and will ensure that higher education study remains open to all students.
42. The overall maintenance support available to students in loans will increase to the highest level ever for students from low-income households. Up to £8,200 will be available for those studying away from home outside London. More is available for those studying away from home within London. These loans are only repaid once borrowers' earnings rise above £21,000.
43. We remain committed to widening access and it is great that more young people from disadvantaged backgrounds are going to university than ever before. The Prime Minister has set out a goal to double the proportion of disadvantaged young people going to university by 2020, compared to 2009.

44. And universities are spending even more to help those from disadvantaged backgrounds access higher education, with funding through access agreements expected to rise by two thirds, to £735 million a year by 2019, compared to 2011.





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