

Low Pay Commission
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The Commissioners



from left to right standing:

David Coats
Margaret Prosser
Paul Gates
George Bain
David Metcalf
William Brown

from left to right seated:

John Cridland
Ian Hay
Stephanie Monk

Professor George Bain (Chairman)

President and Vice-Chancellor,
The Queen's University of Belfast

Professor William Brown

Professor of Industrial Relations and Master of Darwin College,
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Deputy General Secretary,
Transport & General Workers Union

Chairman's Foreword to the Report Summary

- 1 The National Minimum Wage has now been in place for almost two years. When we produced our second report, some nine months after the launch of the minimum wage, we concluded that it had been introduced successfully. Nothing we have seen since has caused us to change our minds. The minimum wage has brought benefits to many low-paid workers without any significant negative impact on employment or the economy. This major intervention in the labour market, which many considered controversial even a couple of years ago, is now widely accepted throughout the UK. A minimum wage set at a sensible level provides an effective labour market floor that protects workers from exploitative pay levels and businesses from unfair competition. And around 70 per cent of beneficiaries have been women, hence the minimum wage has contributed to a significant narrowing of the gender pay gap.
- 2 We produced the report in two volumes. We decided to do so following representations, mainly from employers, on the length of notice they needed to be able to plan and implement changes to the National Minimum Wage. Employers told us that they needed about six months' notice. We were sympathetic, not least because we have frequently been told that one of the reasons for the successful introduction of the minimum wage is the length of notice that employers received. We therefore decided to submit our recommendation on a new rate to the Government as soon as possible after we had taken a decision on it. The Government accepted our recommendation in the first volume on the increase to the main rate.

- 3 The second volume contains analyses and recommendations about how the minimum wage is working in practice, its effect on incomes, and its impact on young people, other groups and on low-paying sectors. We also look at compliance and enforcement and suggest how the minimum wage should be reviewed in future.
- 4 We have been able to make a fuller assessment of the effect of the National Minimum Wage drawing on the research we commissioned, the survey of employers we conducted, and official statistics. We considered carefully the evidence, both written and oral, which we received from a wide range of organisations. And we undertook a programme of regional visits throughout the UK to learn from the experience of people affected by the minimum wage. Once again we are most grateful to all those who took the time and effort to inform our work.
- 5 The treatment of young people poses a considerable challenge. We remain convinced that, in line with the practice of the vast majority of employers, 21 year olds should be included in the adult rate. Apart from the lack of equity in not treating 21 year olds as adults, we are convinced by the data on the pay of 21 year olds. The lowest decile earnings of 21 year olds is closer to older workers than younger workers, and the pay of 21 year olds in new jobs is closer to that of older workers. Hence we are confident that the employment prospects of 21 year olds would not be damaged. We have made this recommendation in our previous two reports, and we hope that the Government will now agree that it would be prudent to accept it.

- 6 Across the two volumes of our report we have recommended increases which will make a real difference to low-paid workers, but will at the same time be manageable for business and the economy. And we have presented a coherent set of conclusions and recommendations, which is measured and straightforward and which we hope will contribute to the successful future of the National Minimum Wage. Key to this is our recommendation on the way that the minimum wage should be reviewed in future.
- 7 I should like to thank my fellow Commissioners for the contribution they have made to this process, both in terms of the quality of their input and their personal commitment to making it work. As one of the Commissioners has noted, this has been a shared and mutual education. We have laid a firm foundation on which a future approach can safely be built.

A handwritten signature in black ink, appearing to read 'A. Bairn'. The signature is written in a cursive, flowing style with a large initial 'A'.

June 2001

Report Summary

Volume One

(published March 2001)

We recommend that the main National Minimum Wage for adults aged 21 and over should be increased to £4.10 per hour in October 2001 and to £4.20 per hour in October 2002.

Our Task

- 1 In May 2000, the Government gave us new terms of reference. We were asked to recommend whether there was a case for increasing the main rate and the Development Rate and, if so, by how much. We were also asked to continue to monitor and evaluate the impact of the National Minimum Wage and to consider the case for changing the age at which workers become entitled to the adult rate. The Government asked us to report by July 2001 with a view to it implementing changes in October 2001. We were concerned that if we reported in July businesses would not have sufficient time to prepare. We therefore decided to report on the impact of the National Minimum Wage and the level of the main rate in March with further analysis and recommendations in a second volume in May.

What We Did

- 2 As with our previous reports, we based our recommendations on extensive research and consultation. We commissioned 21 research projects and undertook surveys of firms in low-paying sectors and of employers participating in the New Deal. We analysed relevant data and worked with the Office for National Statistics (ONS) in order to establish better estimates of the incidence of low pay. We considered developments in the minimum wage systems of other countries. Consultation with employers, workers and their representatives has always been a fundamental part of our work; we therefore took written

and oral evidence from a wide range of organisations and made visits throughout the UK.

Assessing the Impact

- 3 We remain at a relatively early stage in the development of the National Minimum Wage but now have sufficient data to make an assessment of its initial impact. A large number of people have benefited. We mentioned in our first two reports that there was uncertainty with the ONS data. These have been revised again. The latest estimate based on these data suggests a lower number of beneficiaries than we originally anticipated, but the basic messages from our second report hold good.
- 4 Based on the revised ONS data the latest estimate suggests that 1.3 million people were entitled to higher wages as a result of the introduction of the minimum wage. Around 70 per cent of beneficiaries were women, and around two-thirds of jobs affected were part-time. In a tight labour market wages have risen ahead of the minimum wage, so the number of those set to benefit from the upratings in 2000 was significantly lower than for the introduction of the minimum wage in April 1999.
- 5 It appears that the substantial majority of workers have been receiving their entitlement, but we will make a fuller assessment of compliance in the second volume. As a result of the minimum wage, the overall earnings distribution and the gender pay gap have narrowed. Although some low-paying sectors have been more affected than others, the overall evidence suggested that the impact on differentials has been largely contained and there does not appear to be a major continuing effect. Our latest estimate of the initial impact of the minimum wage on the national wage bill is 0.35 per cent. This is lower than the estimate in our second report, largely because of the reduction in the estimated number of beneficiaries.
- 6 The large majority of firms affected by the minimum wage have managed to adapt, even if that has sometimes been a significant challenge. The buoyant labour market has undoubtedly helped, as has the prudent approach we took in recommending an initial rate. We considered whether, in

coping with the minimum wage, firms had attempted to increase productivity of labour or improve their competitiveness. We found a wide range of responses by firms. Some businesses reported positive changes that increased efficiency; others reported difficulties. Some firms responded to increased business costs arising from the minimum wage by raising prices, although the scope for doing this varied from industry to industry depending on, among other things, the degree of competition and flexibility of contracts. At the aggregate level we could not detect an impact on the Retail Prices Index (RPI) from the introduction of the minimum wage.

- 7 We were encouraged by many firms' use of training. Although we found some instances of reducing training to ease the cost of the minimum wage, these were rare. Some firms viewed training as part of a wider strategy to improve skills and to compete for workers in a tight labour market.
- 8 We were especially concerned about possible negative employment effects of the minimum wage. Employment has continued to grow strongly since the introduction of the minimum wage, and there were no discernible adverse effects at the aggregate level. In particular, employment among those groups that were particularly vulnerable – women, young people, part-time workers, most ethnic minority groups and disabled people – continued to increase. We realised that this did not, of course, tell us what employment would have been in the absence of a minimum wage; but our research showed that even after controlling for this and other factors the impact of the minimum wage was broadly neutral.

Choosing a New Rate

- 9 In making our recommendation we have taken account of the impact of the National Minimum Wage so far, and looked to the future to assess the impact of an increased rate. We needed to choose a rate that would have a real impact on low-paid workers but at the same time would be manageable for business and the economy. A rate that was not manageable would hurt the prospects of the very people it was meant to protect, by damaging employment, profitability and competitiveness.

- 10 Although we did not have any target for coverage in mind, our assessment on making a real difference to the low paid was influenced by the revised data that we received from the ONS on the numbers in low pay. Our consideration about what businesses, particularly those directly affected, and the economy could afford was based on a range of factors. We looked at the effect on wage bill costs at both the aggregate and sectoral levels, likely employment effects, and the impact on prices and on the public sector. We considered carefully the evidence from businesses, unions and other interested parties. Almost all evidence received from representatives of employers and workers accepted the principle that the minimum wage should be uprated, although some businesses expressed concern about increases that would affect their costs and competitiveness.
- 11 We looked at the evidence in the context of the current economic situation, but recognised that a new rate needed to be sustainable in less favourable conditions. We therefore considered prospects for the near-term future and analysed recent trends in prices, earnings and pay settlements.
- 12 Prospects for growth and stable inflation, revisions to the numbers in low pay and evidence from consultation suggested that there was now scope for a significant increase in the National Minimum Wage. We believed that such an increase would not adversely affect the economy or reduce aggregate employment. But we were aware that low-paying businesses, many operating on narrow margins, including smaller firms, would need to absorb and adapt to the increased costs. We considered it prudent therefore to recommend a small further increase for October 2002 before the minimum wage is reviewed in full again.
- 13 **We recommend that the main National Minimum Wage for adults aged 21 and over should be increased to £4.10 per hour in October 2001 and to £4.20 per hour in October 2002.**
- 14 This increase will ensure that the minimum wage maintains its value as a wage floor, and will provide a significant boost to earnings of workers in low-paid jobs. Between 1.3 and 1.5 million jobs, around 5.5 to 6.6 per cent of jobs for those aged 21 and over, will be covered by the increase in 2001. We

believe that the impact on the total wage bill should be no more than 0.3 per cent, although this will be greater in some low-paying sectors and geographical regions. The impact on sectors affected overall and on the economy as a whole will be significantly less than that resulting from the introduction of the National Minimum Wage. We recognise that this impact will vary across, and within, sectors but believe it can generally be managed. We hope that business organisations, trade associations, trade unions and supporting bodies such as the Small Business Service will assist businesses in adapting to the new rate through, for example, the sharing of best practice and in developing strategies to adjust. We estimate that any impact on inflation will be small, as is the likely impact on public sector finances.

Conclusion

- 15 The implementation of the National Minimum Wage to date has been a success. Our recommendation on a new rate remains prudent enough not to have any adverse effect on employment, but bold enough to make a significant difference to low-paid workers. We have recommended a small increase in 2002 before the rate is fully reviewed again. The second volume of our third report, in May, will describe in detail the impact of the minimum wage on individual low-paying sectors, on young people and training, and on vulnerable groups, as well as its interaction with the tax and benefits system. This volume will include our conclusions and recommendations on the level and coverage of the Development Rate, the maximum accommodation offset, compliance and enforcement, and the future uprating of the minimum wage. Together the two volumes will present a comprehensive analysis of the impact of the minimum wage and its continuing development, some three years after we made our first recommendations.

Volume Two (published June 2001)

Introduction

- 1 In response to representations that business needed as much notice as possible of forthcoming changes to the National Minimum Wage, we announced in January 2001 that we would submit our third report early to the Government in two volumes. This second volume addresses a number of important aspects of the minimum wage, including its treatment of young people and training, its impact on incomes, implementation issues, the accommodation offset, compliance and enforcement, and the future review process. Our conclusions and recommendations on these matters continue to be based on wide-ranging consultation and analysis.

Young People and Training

- 2 Young people have benefited from the National Minimum Wage without any discernible negative impact on their employment. There is also no evidence of any adverse impact on the New Deal, on apprentices or on training provided by employers. An age-related Development Rate for young adults lacks equity and our longer-term aim remains to link the Development Rate to accredited training rather than age. To achieve this without risking an adverse impact on youth employment, however, changes must be phased incrementally: we will need to be confident that there will be no adverse employment impact from lowering the age at which the main rate applies. We believe this is already the case for 21 year olds and we recommend once again that they should receive the adult rate; this recommendation is supported by pay data on the lowest-paid young people and on those in new jobs, and by evidence of employer practice. For 18–20 year olds we recommend that the age coverage of the Development Rate should be kept under review.

- 3 We note that take-up of the Development Rate for older workers has been low; we would like to review the merit of continuing this concessionary rate again in the light of future developments. And we will need to make a full assessment of the impact of the National Minimum Wage on those younger workers excluded from it and keep their treatment under review. The relativity between the Development Rate and the main rate has protected employment and training opportunities without any adverse impact on incentives to work. We therefore recommend an increase in the Development Rate in line with the main rate to £3.50 per hour in October 2001 and £3.60 per hour in October 2002.

Impact on Incomes

- 4 While the minimum wage affects households across the income distribution, it has had most impact on the poorest working households. The effect of the tax and benefits system is to reduce the impact on incomes for some, but not all, households affected by the minimum wage. The minimum wage has led to a small reduction in poverty rates. It must be seen as part of a package of in-work support: in combination with the minimum wage, recent tax and benefits changes have reduced the number of people living in poverty by nearly a quarter. By underpinning the system of tax credits and benefits the minimum wage supports the strategy of in-work benefits to help the low paid in work. And by providing a guaranteed level of income in work, the minimum wage increases the incentive to move into work.

Compliance and Enforcement

- 5 The vast majority of employers are complying with the National Minimum Wage. We are not complacent, however, because some workers continue to be underpaid. Although overall awareness of the existence of the minimum wage is very high, we recommend further publicity for the headline rate, the enforcement service and the Helpline number to improve awareness among the public. The enforcement system is generally seen as effective, but we hope that Government will strengthen it further by using its initiatives to promote compliance with tax and other legislation also to tackle non-

compliance with the minimum wage. We welcome the pilot projects being developed by the Government in partnership with external agencies to promote the reporting of non-compliance.

- 6 We also welcome proactive enforcement by the Inland Revenue and Government publicity for enforcement actions and we hope that they will do more of both of these. Some workers continue to experience detriment and dismissal related to the minimum wage, and we recommend that the Inland Revenue and the Advisory, Conciliation and Arbitration Service (ACAS) continue to monitor service to customers at the boundary between the two organisations and examine the scope for action to strengthen it.

Implementation Issues

- 7 The definition of the National Minimum Wage adopted in the Regulations has worked well and the great majority of employers has found the operation of the National Minimum Wage Regulations unproblematic. But we received some representations about specific issues including the Supported Employment Programme, voluntary workers, the accommodation offset, tips, the funding of the social care system, and fair estimate agreements for output workers. The Government made additional funding available for supported employment in 1999/2000. We believe the Government should do so again and should also provide reassurance to employers about how the Supported Employment Programme will work in future. We also invite the Government to examine with the voluntary sector how far their concerns can be met within the framework of the current legislation.
- 8 The accommodation offset has remained at the same rate since the introduction of the minimum wage in 1999. We recommend that it should be increased to £3.25 per day. We consider the issue of whether tips which are not paid through the employer's payroll should be included in the minimum wage but conclude that the present system is the fairest. And we received proposals on fair estimate agreements: we recommend that the Government should consult representatives of output workers and employers on possible change in this area.

- 9 The social care sector is in an almost unique position because of its reliance on public funding. We recommend that the Government should ensure that the new concordat on commissioning of care to be endorsed by central and local government, health bodies, and nursing and care home providers makes clear that commissioning policies should reflect the costs of provision.

Future Reviews

- 10 A process for reviewing the National Minimum Wage at regular intervals will ensure that it continues to provide effective protection for low-paid workers and predictability for businesses. As the National Minimum Wage is relatively new and we are still learning about its impact, each review should take account of all relevant factors and allow scope for judgment. Formulaic updating would not satisfy this requirement. We therefore recommend that the Low Pay Commission should continue to review the minimum wage through a comprehensive process of data gathering, consultation and analysis. Reviews also need to be frequent enough that the minimum wage does not lose its effectiveness as a wage floor. Hence we recommend biennial reviews, with the Commission reporting in February to allow sufficient notice of implementation the following October.

Conclusion

- 11 The National Minimum Wage has an important place in the labour market and makes a difference to the living standards of many workers. Its impact must be kept under review. The Low Pay Commission's work would be assisted by standing terms of reference that enable us to plan a strategic, longer-term programme of research. We believe that our recommendations will help ensure the continuing effectiveness of the minimum wage, both in the immediate future and the longer term.

Recommendations

Choosing a New Rate

- The main National Minimum Wage for adults aged 21 and over should be increased to £4.10 per hour in October 2001 and to £4.20 per hour in October 2002.

Young People and the Development Rate

- Twenty one year olds should be included in the main National Minimum Wage.
- The age coverage of the Development Rate should be kept under review.
- The level of the Development Rate should be £3.50 per hour in October 2001, and £3.60 per hour in October 2002.

Compliance and Enforcement

- There should be further publicity for the headline rate of the National Minimum Wage as well as for the existence of the enforcement service and the National Minimum Wage Helpline number.
- The Inland Revenue and the Advisory, Conciliation and Arbitration Service should continue to monitor service to customers at the boundary between the two organisations and examine the scope for action to strengthen it.

Implementation Issues

- The accommodation offset should be increased to a maximum weekly amount of £22.75 or £3.25 per day.
- The Government should consult representatives of output workers and their employers to see whether there is a case for a change in the Regulations on fair estimate agreements.

- The Government should ensure the Strategic Commissioning Group's concordat makes clear that policies on commissioning care, particularly places in care homes, should reflect the costs of provision.

Future Reviews

- Future uprating should be based on recommendations by the Low Pay Commission resulting from consultation and analysis of a comprehensive range of factors.
- There should be biennial reviews reporting in February for implementation in the following October.

