EXPLANATORY MEMORANDUM TO

THE NATIONAL MINIMUM WAGE REGULATIONS 1999 (AMENDMENT) REGULATIONS 2008

2008 No. [DRAFT]

1. This explanatory memorandum has been prepared by The Department for Business, Enterprise and Regulatory Reform and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Description

2.1 The National Minimum Wage Regulations 1999 (Amendment) Regulations 2008 ("the Amendment Regulations") amend the National Minimum Wage Regulations 1999. Regulations 1, 4 and 7 will come into force the day after the day the Amendment Regulations are made. The remaining provisions will come into force on 1 October 2008.

2.2 The Amendment Regulations increase the principal (or adult) hourly rate of the national minimum wage, the development rate (for 18-21 year olds), and the 16 and 17 year old rate. They also increase the maximum amount for living accommodation that is allowed to count towards pay for national minimum wage purposes (the "accommodation offset").

2.3 The Amendment Regulations also amend regulation 12 of the National Minimum Wage Regulations 1999 so as to:

(a) clarify the circumstances in which individuals taking part in some Government employment programmes are exempt from the National minimum wage; and
(b) extend the current exemption period for individuals taking part in a work trial from three weeks to six weeks.

3. Matters of Special Interest to the Joint Committee on Statutory Instruments.

None.

4. Legislative Background

4.1 The Regulations are being made pursuant to powers in the National Minimum Wage Act 1998. Amendments to increase national minimum wage rates and the accommodation offset have been prepared in the light of

recommendations contained in a report made by the Low Pay Commission, the independent body which assisted with the introduction of the national minimum wage and which has the continuing function of reporting on matters relating to the national minimum wage that are referred to it by the Secretary of State for Business Enterprise and Regulatory Reform.

5. Territorial Extent and Application

This instrument extends to all of the United Kingdom.

6. European Convention on Human Rights

Pat McFadden MP has made the following statement regarding Human Rights:

In my view the provisions of the draft National Minimum Wage Regulations 1999 (Amendment) Regulations 2008 are compatible with the Convention rights.

7. Policy background

7.1 The national minimum wage was introduced on 1 April 1999 and creates an obligatory threshold pay level. The intention is to protect workers from unacceptably low rates of pay.

7.2 Decisions on the rates of the national minimum wage and other related matters are usually based on recommendations made by the Low Pay Commission. The Commission carries out a wide-ranging consultation and fact-finding exercise before arriving at its recommendations. The Commission presented its report on the national minimum wage to the Government in February 2008 and the Government made a written statement on 5 March 2008 in response. Copies of that statement and the report were placed in the Library of the House of Commons and the Library of the House of Lords on that date.

7.3 The increases in the hourly minimum wage rates and the amount of the accommodation offset which these Regulations will implement are those recommended by the Commission in its report.

7.4 The Government believes that these elements of the Regulations will be of public interest – in part because it estimates that around one million low paid workers stand to benefit from the national minimum wage rate increases.

7.5 The amendments to Regulation 12(6) (workers who do not qualify for the national minimum wage) are intended to clarify the entitlement of individuals taking part in the Government's employment programmes, including the New Deal. These programmes are intended to provide individuals with training, work experience or temporary work or to assist them in seeking or obtaining work.

Currently, for example, New Deal requires participants to opt for a period of activity that might provide training or work experience with an employer, the voluntary sector or on an environmental project. Participants will usually remain on benefits for the duration of these placements, but some may opt for a period of subsidised employment with an employer, during which they will receive a wage. Individuals taking part in employment schemes, such as those on New Deal, who are actually employed by an employer and receive or are entitled to receive remuneration from that employer (other than for the purpose of reimbursing expenses such as those incurred in travelling to and from work), are entitled to receive the national minimum wage. Participants in other schemes are exempt but will continue to receive Government benefits for the duration of the scheme. The amendments clarify the existing provisions and take account of programmes including the current New Deal and provisions planned under Flexible New Deal which is being introduced from 2009.

7.6 The National Minimum Wage Regulations 1999 currently provide an exemption for Work Trials of up to three weeks. Work Trials are a voluntary arrangement for both employers and individuals. Work Trials allow an individual to be placed with a potential employer for a trial period which relates to a particular post. The intention is that the individual will be offered a permanent post if the trial is satisfactory. The trial is non-competitive and allows both employer and potential employee to decide if the arrangements will suit them. During the trial the potential employee continues to receive benefits from DWP including entitlement to claim expenses incurred as a result of participating in the trial, such as those for travel, meals and accommodation. Jobcentre Plus will pay the participant's expenses directly to the individual, but where an employer chooses to cover the cost of expenses themselves, these payments will be reimbursed to the employer by Jobcentre Plus. The Government has announced that this scheme will be extended to six weeks in certain situations e.g. for lone parents, disabled people or others helped through the local employment partnerships initiative. This decision reflects the progressive extension of welfare to work policies to economically inactive groups. Employment policies must be flexible and responsive to the needs of different individuals, including situations where someone who has been out of work for a particularly long period may need more time to demonstrate their suitability or to develop the confidence that they can take a job on a permanent basis. Work Trials that extend beyond three weeks are expected for a minority number of trials and only with the agreement of both the individual and the employer concerned. However the Amendment Regulations extend the current national minimum wage exemption from three weeks to six in line with the policy intent for extended Work Trials.

7.7 It is not expected that there will be wide public interest in these amendments. They clarify circumstances where the national minimum wage is not due and will have limited effect.

8. Impact

8.1 An Impact Assessment has been prepared and accompanies this memorandum. It is also available from www.berr.gov.uk/employment/pay/national-minimum-wage/index.htlm.

8.2 The Regulations have an impact upon the public sector in so far as they will increase the pay of some public sector workers.

9. Contact

Nicola Dissem at the Department for Business, Enterprise and Regulatory Reform, tel: 020 7215 0389 or e-mail: nicola.dissem@.berr.gsi.gov.uk who can answer any queries regarding the instrument.

Summary: Intervention & Options

Department /Agency:	Title:	
BERR	**Impact Assessment of the amendment to the National Minimum Wage regulations 2008**	
Stage: Final	**Version:** 2	**Date: 20 May 2008**
Related Publications:		

Available to view or download at: **http://www.berr.gov.uk/employment/pay/national-minimum-wage/index.html**

Contact for enquiries: Asad Ghani/Nicola Dissem **Telephone:** 020 7215 1627/0389

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

The National Minimum Wage (NMW) came into force in April 1999 and since then the NMW rates have been uprated annually. The government has accepted the Low Pay Commission's (LPC) recommendations on the new October 2008 rates for the NMW. The NMW is part of the government's strategy to provide fair standards in the workplace and to make work pay. This impact assessment also looks at extending the exemption of the NMW for work trials up to a duration of 6 weeks and the clarification of which government employment programmes are exempt from the NMW.

What are the policy objectives and the intended effects?

The NMW sets a wage floor below which pay cannot fall. The aim when setting the rates is to help the low paid through an increased minimum wage, while making sure that we do not damage their employment prospects by setting it too high. The extension of work trials from 3 to 6 weeks (a DWP policy lead area) is intended to build on the progressive extension of welfare to work policies to economically inactive groups. Clarification of which government employment programmes are exempt from the NMW will assist firms to apply NMW regulations correctly and ensure that workers are not underpaid.

What policy options have been considered? Please justify any preferred option.

The NMW policy targets an improvement in the wage rates of those earning low wages. The NMW rates are reviewed by the independent LPC annually. The LPC carries out a wide ranging consultation on the operation of the NMW and takes account of the economic position before recommending rates. DWP have carefully considered the appropriate duration of extended work trials.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

The government has again asked the Low Pay Commission to monitor, evaluate and review the National Minimum Wage and its impact. DWP regularly monitor and evaluate work trials.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.

Signed by the responsible Minister:

Pat McFadden

Date: 2nd June 2008

Summary: Analysis & Evidence

Policy Option:	Description:

COSTS

ANNUAL COSTS

One-off	Yrs
£	1

Average Annual Cost (excluding one-off)

£ **0-62m**

Description and scale of **key monetised costs** by 'main affected groups' Business - increase in labour costs for proposed 2008 rates £0-62 million (of which increase in wage bill accounts for £0-54 million received by workers, remainder are non-wage labour costs (a transfer from employers to workers or the Exchequer). £50 per extended work trial to Government.

Total Cost (PV) £ **0-62 m**

Other **key non-monetised costs** by 'main affected groups'

Those involved in Government employment programmes may incur some small familiarisation costs. However, they also benefit from simplification and clarification of the law.

BENEFITS

ANNUAL BENEFITS

One-off	Yrs
£	

Average Annual Benefit (excluding one-off)

£ **0-62 m**

Description and scale of **key monetised benefits** by 'main affected groups' Workers - increase in wage bill for proposed 2008 rates £0-54 million (this is a transfer from employers to workers). Non-wage labour costs (£0-8m) (a transfer from employers to workers or the Exchequer). Extending work trials will result in a net benefit of around £6,500 a year to the Exchequer (per trial).

Total Benefit (PV) £ **0-62m**

Other **key non-monetised benefits** by 'main affected groups'

Extended work trials will result in more people in work, employers can fill vacancies more quickly and hence output, employment and profits will be higher.

Key Assumptions/Sensitivities/Risks

Main assumptions can be found in the impact assessment. The uprating of the NMW involves transfers between employers and workers and employers and the Exchequer.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £

What is the geographic coverage of the policy/option?			UK	
On what date will the policy be implemented?			October 1st 2008	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these			£ 7.5 million	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			No	
What is the value of the proposed offsetting measure per year?			£	
What is the value of changes in greenhouse gas emissions?			£ Neglible	
Will the proposal have a significant impact on competition?			Yes/No	
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)
Increase £ 0	Decrease £ 0	**Net**	**£** (0)

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

A: Strategic overview

Existing Government initiatives

NMW uprating

The NMW was introduced in April 1999. The rates have increased in a number of steps, most recently in October 2007. The adult minimum wage rate has increased from £3.60 in April 1999 to £5.73 (to come into effect in October 2008). The development rate of the NMW has also increased from £3.00 in April 1999 to £4.77 (to come into effect in October 2008). The 16-17 year olds rate was only introduced in October 2004 and has increased from £3.00 to £3.53 (to come into force in October 2008).

Government employment programmes

Government employment programmes are intended to provide individuals with training, work experience or temporary work or to assist them in seeking or obtaining work. Currently, for example, New Deal for Young People requires participants to opt for a period of activity that provides training or work experience with an employer, the voluntary sector or on an environmental project. Participants will remain on benefits for the duration of these placements, but some may opt for a period of subsidised employment with an employer, during which they will receive a wage. Participants in some employment programmes are exempt under the NMW Regulations 1999. These include individuals taking part in work placements with an organisation to gain work experience.

Work trials

Work Trials were originally part of the Job Interview Guarantee scheme, which started nationally in 1990, but became a separate national programme from April 1993. Currently, Work Trials enable employers to take on unemployed and inactive benefit claimants for a trial period of up to three weeks. The Work Trial must be for an actual job vacancy and be non-competitive: in other words, the individual on the Work Trial is the only person being considered for the post.

Individuals are eligible for a Work Trial if they are participating in a government programme such as the New Deal or Local Employment Partnerships, are receiving an out-of-work benefit such as Income Support or incapacity benefits, or have been claiming Jobseeker's Allowance (JSA) benefits for six months or more. Some people on JSA may also be eligible for Work Trials before six months, for example if they have a disability or if Jobcentre Plus staff believe they are at a particular disadvantage in the labour market.

The period of each Work Trial is agreed between the individual and the employer on an incremental basis and the individual can terminate the work trial at any time without it affecting their benefit entitlement. Many Work Trials last for less than the current three week maximum.

Implications for Administrative Burdens

The NMW is now a recognised part of employment practices and implementation costs of administering the proposed increase will be minimal.

Participation, for both employers and individuals, is voluntary. Therefore, both parties will have judged that any extra administrative costs they incur are expected to be more than offset by the benefits of participating in the Work Trial. For employers it will provide them with the opportunity to fill jobs more quickly. For individuals it will provide them with the opportunity to move into a job more quickly.

B: The issue

NMW uprating

Decisions on the NMW rates are made by the government following consideration of recommendations by the independent LPC. The LPC reports contain a large body of evidence and analysis on the impact to date of the NMW. The evidence and data collected and produced by the LPC have been used to inform this IA[1].

Government employment programmes

Individuals taking part in employment programmes, such as those on New Deal, who are actually employed by an employer and receive or are entitled to receive remuneration from that employer (other than for the purpose of reimbursing expenses such as those incurred in travelling to and from work), are entitled to receive the national minimum wage. Participants in other programmes are exempt but will continue to receive Government benefits for the duration of the scheme.

Work Trials

The NMW Regulations 1999 currently provide an exemption for work trials of up to three weeks. Work trials involve an unemployed individual being placed with a potential employer for a trial period. The trial period relates to a particular post and the intention is that the unemployed individual will be offered the post if the trial is satisfactory. The trial allows both employer and potential employee to decide if the arrangements will suit them. During the trial the potential employee continues to receive benefits from DWP.

The Prime Minister announced that this scheme will be extended to six weeks for some client groups, eg lone parents. An amendment to the NMW regulations is required to ensure the extended scheme is exempt, in the same way as the current scheme.

The case for this change rests on the success of the current Work Trial programme, coupled with the progressive extension of welfare to work policies to harder to help economically inactive groups. Recent reforms to welfare to work policies announced by DWP are looking to ensure employment programmes are more flexible and responsive to the needs of different individuals, particularly those who have been out of work for a long period of time. In this situation individuals may need more time to demonstrate their suitability to potential employers, develop the confidence that they can take a job on a permanent basis or make decisions about the type of work they want to do. Extending the exemption will provide this flexibility, though we would expect it to be used in only a minority of cases, and only with the agreement of both the individual concerned and their employer.

Department for Work and Pensions (DWP) have produced an impact assessment which examines the impact of extending work trials from 3 to 6 weeks. BERR have incorporated their analysis into this impact assessment because this scheme would need amendments to the NMW regulations in order to exempt work trials from the National Minimum Wage.

Policy and economic rationale for Work Trials

Work Trials offer individuals the opportunity to try an actual job vacancy while remaining on benefit. Some customers may be job ready but hold reservations about a particular job. For others, particularly those who have been out of work for a longer period of time, they may not believe they will be able to hold down a job. In addition to their benefits, participants receive travel and meal expenses.

Work Trials offer employers the opportunity to test a person's suitability for a job. Research evidence suggests that employers sometimes screen out the long term jobless because they have misconceptions or stereotypical views about their work experience and skills[2].

[1] National Minimum Wage , Low Pay Commission report 2008 (http://www.lowpay.gov.uk/lowpay/report/pdf/2008_min_wage.pdf)

[2] For example, see Atkinson, Giles, and Meager (1996), *Employers recruitment and the unemployed*, IES Report 325 or *Employer perspectives on the recruitment, retention and advancement of low-pay, low-status employees* Atkinson J Williams M Cabinet Office July 2003.

Work Trials can therefore help to address market failures, on both the demand side and the supply side of the labour market, caused by lack of information. On the demand side, Work Trials provide the facility for an employer to find out about an individual's actual performance in a job, providing information which would otherwise have been unavailable given the lack of a recent work history.

On the supply side, Work Trials can help to demonstrate to an individual that their non-financial barriers to work are not as high as they might have first thought and enable them to try out, without risking their benefits, types of work, working environments or work patterns that they may not have previously considered.

The other important economic rationale for Work Trials, like all active labour market programmes, is to support an increase in the effective supply of labour. This increases the efficiency of the job matching process and addresses structural mismatches in demand and supply which, over time, helps to ensure that the economy can continue to grow and support higher levels of employment without adding to inflationary pressures.

Consultation

Within government

BERR has been working closely with DWP and HMT.

Public consultation

The LPC consulted a range of stakeholders including employee and employer organisations to recommend new uprated NMW rates.

C: Objectives

Background

NMW uprating

The purpose of the NMW is to create a minimum pay level and thus to protect workers from unacceptably low rates of pay. The NMW forms part of the government's policies to make work pay, alongside other measure particularly tax credits.

Decisions on the NMW rates are made by the government following consideration of recommendations by the independent LPC. The LPC reports contain a large body of evidence and analysis on the impact to date of the NMW. The evidence and data collected and produced by the LPC have been used to inform this IA[3].

The NMW was introduced in April 1999. The rates have increased in a number of steps, most recently in October 2007. The adult minimum wage rate has increased from £3.60 in April 1999 to £5.73 (to come into effect in October 2008). The development rate of the NMW has also increased from £3.00 in April 1999 to £4.77 (to come into effect in October 2008). The 16-17 year olds rate was only introduced in October 2004 and has increased from £3.00 to £3.53 (to come into force in October 2008).

Government employment programmes

[3] National Minimum Wage , Low Pay Commission report 2008 (http://www.lowpay.gov.uk/lowpay/report/pdf/2008_min_wage.pdf)

The regulations do not change the current position of individuals taking part in government employment programmes but seek to clarify the existing provisions to make it clear which participants are exempt from national minimum wage and which should receive national minimum wage for their work.

Extended Work Trials and the National Minimum Wage (NMW) regulations

There are a number of factors behind the government's decision to introduce extended Work Trials:

- the success of the current Work Trial programme, which although relatively small in scale is inexpensive to administer, and has a high success rate.

- ensuring Work Trials operate in a way that is consistent with the direction of travel of the government's wider welfare reform agenda. This is aiming to build on the success of current active labour market policies through a new generation of employment programmes, including Pathways to Work and the flexible New Deal, that ensure support is as responsive as possible to the needs of individuals in different geographical locations or those facing particular labour market challenges

- the progressive extension of welfare to work policies to economically inactive groups, particularly those on benefits, most of whom are not currently looking for work and have been claiming benefits for more than two years. It is important that existing employment policies such as Work Trials can be adapted to respond to the increasingly diverse needs of the individuals who will be accessing provision in the future.

For example, many people on lone parent and incapacity benefits will have been out of work for a long time and only have a weak attachment to the labour market. They may need more time to demonstrate their suitability to an employer, to develop the confidence that they can take a job on a permanent basis or to make decisions about the type of work they want to do. As with other labour market programmes, this flexibility will be carefully targeted at local level through the way in which it is implemented by Jobcentre Plus staff, so that it suits the needs of the individual.

We would expect it to be used in only a minority of cases, and only with the agreement of both the individual concerned and their prospective employer.

In order for extended Work Trials to become a reality, it is necessary to amend the existing exemption period for Work Trials within NMW regulation 12 (6) to cover periods up to a maximum of six weeks.

It has always been the policy intention that jobless individuals taking part in short term measures aimed at improving employability and supporting a transition to sustained work should not be subject to the National Minimum Wage. The existing three week exemption for Work Trials in the NMW Regulations reflects the fact that at the time the NMW was introduced this was the standard length of a Work Trial. There was no reason at the time to expect that changes in the objectives and scope of active labour market policies might mean this would need to change in the future. Nevertheless, this point has now been reached.

In line with normal DWP practice, guidance used by Jobcentre Plus in its work with employers will be updated for use for when the changes come into effect. This will help to ensure that administrative burdens are minimised by providing both employers and individuals with the accurate, relevant and timely information that they need to make their decisions.

D: Options identification

Options

NMW uprating

The LPC in their latest report to the government have recommended the following NMW rates:

Adult rate (for workers aged 22+)	£5.73
Development rate (for workers aged 18-21)	£4.77
16-17 year olds rate	£3.53

The LPC has recommended this latest rate rise after a wide ranging consultation and careful consideration of economic evidence and the impact on the employment prospects of low paid workers. The government has accepted this recommendation and the new NMW rates will come into force in October 2008.

The government accepts the LPC's analysis, that these proposals represent an acceptable balance between maintaining and enhancing the value of the NMW and preserving employment prospects for many of the most vulnerable workers. The LPC's analysis is set out in their report.

Government employment programmes

The existing regulations do provide an exemption for participants in certain employment programmes. However, the government believes that as currently drafted the regulations leave scope for uncertainty. It is therefore desirable to amend the regulations to clarify which participants are entitled to receive the national minimum wage and which participants are exempt.

Extended Work Trials

Department for Work and Pensions (DWP) have carefully considered the most appropriate period to extend work trials and have opted to examine the extension of work trials from 3 to 6 weeks.

E: Analysis of options

Costs and Benefits

NMW uprating

The impact of the proposed changes in the NMW rates will be to increase the pay of some workers above the level that it would otherwise have been. This will be a cost to employers and a benefit to workers (explored later on in this IA). The NMW is now a recognised part of employment practices and implementation costs of administering the proposed increase will be minimal.

Business sectors affected

All sectors are affected by the NMW, although agriculture has its own minimum wage machinery. In practice, the impact of the NMW is most keenly felt in a number of sectors: retail; hospitality; cleaning and security; social care; manufacture of textiles, clothing and footwear; and hairdressing. In their report, the LPC paid particular attention to these sectors.

Number of potential workers covered by the NMW uprating

The latest data relating to the low paid jobs in the UK relates to Spring 2007. The data shows that at that time:

- an estimated 1.7 million jobs held by those aged over 21 were paid below the proposed October 2008 NMW adult rate of £5.73.
- an estimated 0.16 million jobs held by those aged between 18 and 21 were paid below the proposed development rate of £4.77 for October 2008.
- an estimated around 30,000 16-17 year olds were earning less than £3.40 – the proposed rate for 16-17 year olds from October 2008.

The numbers of jobs that are actually covered by the proposed increases in October 2008 will depend upon what has happened, and is likely to happen, to the wages of workers in the period between Spring 2007 and October 2008.

The adult and development rates of the NMW were increased to £5.52 and £4.60, respectively, in October 2007, and it is assumed that these changes fed through into earnings for all workers earning below those levels. We are assuming full compliance with the NMW[4]. The vast majority of businesses are compliant with NMW. The government has focussed on further increasing compliance, through increased resource for enforcement and monitoring of NMW and the introduction of a new penalty regime through the Employment Bill.

Increase in NMW rates from October 2008

In this IA, our main assumption is that the hourly pay of all those earning less than the October 2008 rates increases in line with average earnings growth (measured by the Average Earnings Index) between Spring 2007 and October 2008. This is based on an average increase using actual data for the period April 2007 to January 2008,[5] and a forecast rate of increase thereafter derived from the HM Treasury comparison of independent economic forecasts.[6]

On this assumption, approximately 1 million workers will be covered by the proposed October 2008 NMW uprating. This comprises of around 30,000 16-17 year olds; around 100,000 18-21 year olds, and around 0.8 million workers aged 22 and over.7 Of the around 1 million covered by the NMW uprating, around two-thirds will be women.

[4] It is very difficult to measure the precise level of non-compliance using ASHE data as there are exemptions from paying the NMW. Low Pay Commission's 2008 Report includes an analysis of the number of employees reported to be paid less than NMW in the 2007 ASHE data.

[5] Average earnings (including bonuses) grew by 2.2% April 2007 -January 2008. ONS Average Earnings Index (LMNQ).

[6] Source: http://www.hm-treasury.gov.uk/media/2/1/bud08_forecast_278.pdf (page 5, table 2)
Independent average forecast for AEI growth in 2008 was 4.0 per cent in March 2008.

[7] This is calculated by deflating the October 2008 proposed rates by actual and forecast headline average earnings growth (including bonuses), i.e. by 6.2 per cent over 18 months, producing the equivalent rates of £5.40 for adults; £4.49 for 18-21 year olds and £3.33 for 16-17 year olds. The numbers affected are then calculated from the cumulative distributions of jobs and hourly pay based on 1p pay bands from ASHE 2007. The total number of workers covered by the NMW uprating is rounded to the nearest 100,000.

An alternative assumption, which is less likely, is that the hourly pay of all those earning less than the October 2008 rates will have increased in line with Retail Price Index (RPI) inflation between April 2007 and October 2008. This is based on an average increase using actual data for the period April 2007 to February 2008,[8] and a forecast rate of increase thereafter derived from the HM Treasury comparison of independent economic forecasts[9]. On this assumption, the number of jobs that would potentially benefit from the proposed October 2008 increase is approximately 1.1 million, made up of about 30,000 jobs held by 16-17 year olds, about 0.12 million jobs held by 18 to 21 year olds and 0.97 million jobs held by those aged over 22[10].

Impact on labour costs of uprating

The impact of the upratings on wage and labour costs also depends upon the assumptions made about the likely path of wage increases between October 2007 and October 2008.

The methodology for estimating the increase in wage costs for the uprating is as follows:

- We calculate the additional average hourly uplift in pay that is required to bring all those jobs paying less than the October 2008 proposed rates onto the minimum wage. The size of this average increase will depend on the assumption made about what happens to earnings in these low paid jobs between October 2007 and October 2008 (i.e. the two scenarios discussed above, using either AEI or RPI). It is assumed that there is full compliance with the October 2007 rate[11]. Multiply this average increase per hour by the average number of hours worked by those workers affected. The latest data[12] shows average hours worked per week excluding overtime was 29.6 hours for low paid 16-17 year olds; 26.6 hours for low-paid adults (22 and over) and 25.5 hours for low-paid 18 to 21 year olds[13];

- Multiply by 52 weeks per year.

- Multiply by the number of potential beneficiaries (see above).

To go from the total wage bill to total labour costs, we add 15 per cent to take account of the cost to employers of National Insurance and any other non-wage benefits (such as pension contributions) that are linked to wages. We use a figure of 15 per cent, which is less than the 21 per cent figure used in other IAs, because low-paying jobs are likely to be associated with smaller non-wage benefits.

It should be noted that the IA only considers the direct impact of the uprating. This means we have not accounted for additional costs to employers or benefits to workers (earning above the NMW) as a result of the uprating.

The size of the average hourly increase in pay that employers are required to pay to comply with the minimum wage policy depends on the assumption made about what happens to low-paid earnings between April 2007 and October 2008. The two scenarios discussed above were that in the absence of any uprating, earnings would have risen in line with RPI or average earnings.

[8] RPI grew by 2.9% April 2007 –February 2008. ONS, Retail Price Index.

[9] The March independent average forecast for RPI growth in 2008 was 2.7 per cent. Source: http://www.hm-treasury.gov.uk/media/2/1/bud08_forecast_278.pdf (page 5, table 2)

[10] This is calculated by deflating the October 2008 proposed rates by actual and forecast growth in the retail price index, i.e. by 4.8 per cent over 18 months, producing the equivalent rates of £5.47 for adults; £4.55 for 18-21 year olds and £3.37 for 16-17 year olds. The numbers affected are then calculated from the cumulative distributions of jobs and hourly pay based on 1p pay bands from ASHE 2005. The total number of workers covered by the NMW uprating has been rounded.

[11] Although full compliance with the October 2007 rates indicate presumed minimum rates of pay of £5.52/£4.60, we need to maintain a constant price base. So, we deflate these presumed minima to £5.40/£4.50/£3.33 to take account of 6 months of earnings growth between April and October 2007 under the AEI scenario. Under the alternative RPI scenario shown in the annex, the presumed minima are deflated using the RPI.

[12] Source: April 2007 Annual Survey of Hours and Earnings.

[13] Low pay defined by hourly pay excluding overtime in April 2007 for all ages earning less than or equal to the October 2008 minimum wages, deflated by 18 months AEI growth to give equivalent April 2007 rates. This was £5.40 for ages 22+; £4.49 for 18 to 21 year olds and £3.33 for 16-17 year olds.

Costs for a typical business

The proposed changes to the October 2008 rates represent an increase of 3.8 per cent on the current rate for adults; 3.7 per cent for 18 to 21 year olds and 3.8 per cent on the current rate for 16-17 year olds. Those employers with staff currently paid at or close to the minimum wage will therefore see the earnings of these workers increase in line with the expected growth rate of average earnings. However, most workplaces do not employ people at or near current NMW rates and therefore will be unaffected. And most workplaces that do employ people at or near current NMW rates are unlikely to employ significant proportions at these rates. Thus most businesses are unlikely to see any large changes to their cost base.

Benefits

Increase in minimum wage rates in October 2008

1. The aggregate additional benefit for workers is expected to be neutral in the year commencing October 2008. This is because the minimum wage will rise broadly in line with expected average earnings growth.[14]

2. Under the alternative assumption that low-paid workers' earnings rise in line with the RPI, the estimated wage bill effect and aggregate benefit to workers is expected to be around £54 million for the year commencing October 2008, equivalent to an average pay rise per worker of £49 for the year from October 2006.

Government employment programmes

The regulations clarify the existing provisions to make it clear which individuals taking part in employment programmes are exempt from the national minimum wage and which should receive national minimum wage for their work. This will benefit employers and individuals taking part since the position will be more clearly set out. Through the Employment Bill the government is introducing a new penalty for employers found to have underpaid their workers. Improved clarity about the application of national minimum wage will support employers in complying and not becoming subject to a penalty. Greater clarity will also ease HMRC's enforcement of the national minimum wage.

We do not expect these clarifications to impose any significant cost since there will not be a change in the way the exemptions operate. The changes will be of interest only to those involved in a scheme. For those groups the application of the exemptions will be clearly set out by the agency making the arrangements at the placement when it begins. Those involved in the scheme may incur some small familiarisation costs which we do not quantify in this impact assessment.

[14] IA calculations assume on average hours worked per week of 25.1 for adults, and 27.2 for 18-21 year olds and 31.3 for 16-17 year olds. ASHE 2007. We also assume that the NMW would have grown in-line with Average Earnings if there was no uprating.

Extended Work Trials

Work Trials are an important but in absolute terms relatively small programme. In recent times it is estimated that around 15,000 people annually have taken up one of the existing 3-week Work Trials.

The success rate of people moving into the job from a Work Trial is around 50% and has been very stable over time. In addition, there may be some people who move from a Work Trial into a different job than the one they have been trying out, either with the same or a different employer. These jobs are not recorded.

There are a number of developments, including the extension of the Work Trial period, which leads us to expect the numbers of people starting a Work Trial in the future will increase:

- the success of the current programme has led to more emphasis being placed on the value of Work Trials in recent initiatives such as Local Employment Partnerships.
- the option of a longer period of time to test out a job may encourage more employers to offer and more individuals to participate in a Work Trial.

There is little current evidence on which to take a view of the number of people likely to take up Work Trials as a result of these developments. However, early evidence from the operation of Local Employment Partnerships, combined with the greater attractiveness of extended Work Trials to both employers and individuals, suggests it would be reasonable to assume that they might increase by around 10,000 a year on current levels.

Although extended Work Trials allow more time for participants to make a decision about a job, this time will not necessarily be taken up. Under current arrangements the maximum period of a Work Trial is three weeks, but in practice the modal length of all the Work Trials undertaken is just one week. Clearly for many people it takes only a relatively short period of time to come to a decision about whether to continue a job on a permanent basis.

Therefore, under these proposed changes we would expect that only a minority of all Work Trial starters would need to take advantage of the extended period. Under current arrangements only about one in ten starters remain on their Work Trial right up to the three week maximum. A cautious assumption would be that the availability of extended Work Trials, alongside the aim of getting more people from disadvantaged groups to participate, leads to this figure rising to one in five of all starters. This implies around 5,000 people a year commencing a Work Trial that ends up lasting more than 3 weeks (though only some of these would make use of the full 3 week extension).

Costs and benefits to individual employers and participants
One of the key objectives of existing Work Trials is to make participation by both employers and individuals as close to cost and hassle free as possible. Similar arguments apply to extended Work Trials. The programme is voluntary; with take up encouraged on the basis that there is little risk and little to lose for either party. As indicated earlier, individuals continue to receive their benefits and get travel and meal expenses. There may be some recruitment and training costs for employers, though as Work Trials are required to be actual job vacancies these are unlikely to be materially different from the costs that would have been incurred anyway. A Jobcentre Plus employer survey conducted in 2004 found that only about one in twenty firms responding currently use Work Trials. However, around half said the availability of Work Trials would be likely to increase their usage of Jobcentre Plus.

Since a Work Trial must be for an actual job vacancy, employers are in effect receiving a wage or recruitment subsidy in return for considering an individual who they might otherwise have over-looked. However, given their short duration and non-competitive nature (which means they can be set up quickly) the key benefit to an employer in many cases is likely to be in getting an employee for a period when that post would otherwise have yet to be filled.

Individuals on benefit who find work as a result of Work Trials will gain financially as their in-work income from earnings and tax credits will be higher than their out-of-work income from benefits and tax credits.

Public expenditure costs and benefits

The public expenditure costs of Work Trials are also small. Individuals continue to receive their benefits while participating, but this only leads to an increased cost for the state if they would otherwise have moved into work during the period of the Work Trial. Given the target group for the programme – economically inactive and long-term unemployed people – and the relatively short duration of even extended Work Trials compared to most other labour market programmes, this risk is small.

The main additional cost of the programme to the government lies in the arrangement of the initial placing by Jobcentre Plus staff and in paying expenses for which individuals would not otherwise be eligible. Compared to the current cost of £25 per existing Work Trail we are assuming that the extended Work Trials will be £50. This is a deliberately cautious assumption[15].

The net impact of the policy on employment depends on two factors - additionality and displacement. Additionality refers to the proportion of those getting jobs through the programme that would not have done so otherwise. Additionality will not be 100% - because of the normal process of flows into and out of work in the labour market some people will get jobs anyway. Estimating additionality is difficult since it is hard to know precisely what would have happened to those on the programme had they not participated.

Displacement and/or substitution refers to the fact that the programme may have a negative impact on the employment chances of other jobseekers in the labour market, since they will not have access to these jobs. In practice, the UK labour market is highly flexible and the number of jobs is not fixed. Someone who fills a job does not necessarily preclude another person from finding alternative work. Over the medium term employment is primarily driven by the supply side, the proportion of people active in the labour market, rather than by any limit on the number of job opportunities available. Therefore short-term displacement is not necessarily a serious concern as it does not prevent programmes from improving the functioning of the labour market and, over time, supporting higher levels of sustained employment.

There is no significant quantitative evidence of displacement in existing evaluations of UK labour market programmes[16]. Other evidence suggests that the UK labour market is sufficiently flexible that substitution is not a serious concern. For example, Gilpin et al[17] show that the flow of workers from new EU member states did not have a significant impact on the unemployment chances of natives. Given the paucity of any empirical evidence that substitution or displacement is a concern, this analysis assumes that they are not. As a consequence it is likely that the number of additional jobs attributable to Work Trials is likely to be close to the actual number of people moving into work – around 50% of take up.

Where jobs are additional, and not offset by substitution and displacement, there will be financial savings to the Exchequer from reduced benefit payments and higher tax, national insurance, and VAT receipts. We assume that moving people into work through Work Trials, over the course of a year, has net benefits of around £6,500 for the Exchequer. This estimate includes reduced benefit payments, higher income tax and National Insurance contributions, higher indirect tax payments and payment of tax credits and is in line with assumptions commonly used in the analysis of prospective labour market programmes [18].

We assume that 5,000 people take part in extended Work Trials annually and, based on the performance of the existing programme, that the cost is £50 per person with a gross conversion into jobs of 50%[19]. We also assume a duration of one year for all jobs taken up by extended Work Trial participants. In reality some jobs will last longer than this and some much less. Analysis of the New Deal for Disabled People, for example, suggests employment effects can last for several years.

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[15] The assumption that extended Work Trials will cost £50 per head is deliberately cautious as some of the current figure reflects the fixed cost of setting up a Work Trial to begin with.

[16] See for example, "Evaluating the impact of a mandatory job search assistance programme" Blundell, Dias, Meghir and van Reenen (2001) IFS working paper WP01/20

[17] "The impact of free movement of workers from Central and Eastern Europe on the UK labour market" Gilpin, Henty, Lemos, Portes, Bullen (2006). DWP working paper 29.

[18] This figure was used, for example in the impact assessment carried out for "Ready for Work: full employment in our generation", the government's recent statement of the next steps on welfare reform.

[19] If extended Work Trials are used by individuals who are, on average, more disadvantaged, the success rate could be lower. Against that, there is evidence that the current estimated figure of 50% may be under-stated.

However one year is used here for simplicity and in the absence of specific evidence for programmes of this type.

On this basis additionality of no more than one and a half per cent would be needed for the investment in extended Work Trials to break even. In fact, the experience of other labour market programmes is that rates of additionality are much higher - particularly over the medium term where substitution and displacement can be ignored.

Extended Work Trials – which are likely to have an additionality rate much closer to 50% of take up – are therefore, very likely to have a positive pay-off in economic terms for individuals, employers and the taxpayer:

- individuals: more people will be in work
- employers: vacancies will be filled more quickly and, hence, output, employment and profits will be higher
- public finances: the additional costs are small and the flowbacks to the Exchequer are much more substantial.

F: Risks

The estimates of costs and benefits presented in this impact assessment are necessarily based upon a number of assumptions which are subject to uncertainty. In terms of the annual uprating, the analysis builds in sensitivity to provide a range of costs and benefits.

G: Enforcement

The NMW is enforced by the HM Revenue and Customs. HMRC respond to complaints about situations where workers may not be being paid NMW. They also visit employers identified through risk assessment. Individuals may also make a complaint to an Employment Tribunal that their employer has not paid them the NMW. Employers found to have underpaid their workers NMW are required to pay arrears to their workers and may be subject to a penalty. The Employment Bill, currently being considered by Parliament, will introduce an automatic penalty for all employers found by HMRC to have underpaid their workers, potentially unlimited fines and a new way of calculating arrears to ensure workers do not lose out in real terms as a result of underpayment.

H: Recommendation and summary table of costs and benefits

Table 1 below, shows the effect on the aggregate wage bill and labour costs of the October 2008 uprating under the assumption that in the absence of any uprating, low-paid earnings would have risen in line with average earnings.

Table 1: Impact of the October 2008 uprating on aggregate wage and labour costs (assumes low-paid earnings rise in line with average earnings)

Increase in wage bill for proposed 2008 rates	£0 million
Percentage increase in economy's total wage bill due to uprating	0.%
Increase in labour costs for proposed 2008 rates	£0 million

Source: BERR estimates, based on ONS sources.

Table 1 shows that employers face no additional cost (over and above what they would in any case have to pay their workers) because the NMW is not rising faster than average earnings in October 2008.

Under the alternative, less likely assumption that low-paid earnings rise in line with the RPI, the impact on wage and labour costs would be greater. This effect is shown below.

Impact of the 2008 uprating on aggregate wage and labour costs under RPI assumption

Table 1 above shows the effect of the uprating on the aggregate wage bill and labour costs under our main assumption that in the absence of any uprating, low-paid earnings rise in line with average earnings.

Table 2 below, shows the effect on wage and labour costs under the alternative assumption that in the absence of any uprating, low-paid earnings rise in line with the RPI.

Table 2: Impact of the 2008 uprating on aggregate wage and labour costs (assumes low-paid earnings rise in line with the RPI)

Increase in wage bill for proposed 2008 rates	£54 million
Percentage increase in economy's total wage bill due to uprating	0.01%
Increase in labour costs for proposed 2008 rates	£62 million

Source: BERR estimates, based on ONS sources.

The £54 million increase in the wage bill is a transfer from employers to workers; it represents a cost to employers but a benefit to workers. Increase in labour costs is made up of increase in the wage bill plus non-wage labour costs (£8 million). Non-wage labour costs represent a transfer from employers to workers or employers to the Exchequer.

Other than the replacement of the AEI assumption by the RPI assumption, the methodology is the same as that described in the main section of the IA:

- We calculate the additional average hourly uplift in pay that is required to bring all those jobs paying less than the October 2008 proposed rates onto the minimum wage. The size of this average increase will depend on the assumption that average earnings in these low paid jobs rise in line with RPI between October 2007 and October 2008 It is assumed that there is full compliance with the October 2007 rate[20]. Multiply this average increase per hour by the average number of hours worked by those workers affected. The latest data[21] shows average hours worked per week excluding overtime was 29.2 hours for low paid 16-17 year olds; 25.6 hours for low-paid adults (22 and over) and 26.7 hours for low-paid 18 to 21 year olds[22];

- Multiply by 52 weeks per year.

[20] Although full compliance with the October 2007 rates indicate presumed minimum rates of pay of £5.52/£4.60, we need to maintain a constant price base. So, we deflate these presumed minima to £5.47/£4.55/£3.37 to take account of 6 months of earnings growth between April and October 2007 under the RPI scenario.

[21] Source: April 2007 Annual Survey of Hours and Earnings.

[22] Low pay defined by hourly pay excluding overtime in April 2007 for all ages earning less than or equal to the October 2008 minimum wages, deflated by 18 months RPI growth.

- Multiply by the number of potential beneficiaries under the RPI scenario (see above).

To go from the total wage bill to total labour costs, we add 15 per cent to take account of the cost of employers National Insurance and any other non-wage benefits (such as pension contributions) that are linked to wages. We use a figure of 15 per cent, which is less than the 21 per cent figure used in other IAs, because low-paying jobs are likely to be associated with smaller non-wage benefits.

Government employment programmes

We do not expect these clarifications to impose any significant cost since there will not be a change in the way the exemptions operate. The changes will be of interest only to those involved in a scheme. For those groups the application of the exemptions will be clearly set out by the agency making the arrangements at the placement when it begins.

Extended Work Trials

As Work Trials are a relatively small scale programme, we would not expect extended Work Trials alone to have a significant quantitative effect on the numbers of people moving from out-of-work benefits into employment.

However, extended Work Trials will form just one part of a suite of labour market programmes. This reform - which requires amendment to the NMW Regulations to make it possible - is consistent with the long term direction of travel towards employment programmes that are as flexible and responsive as possible and, as a result, better able to meet the potentially diverse needs of those who take them up.

This change will also allow government to respond positively to requests for greater flexibility from local areas that have highlighted the existing three week limit as an example of centrally determined rules that reduce their ability to tailor support to individual need, especially for those furthest from the labour market.

While small in itself, Work Trials operate in tandem with other programmes such as New Deal and Local Employment Partnerships. Taken together, improvements in the operation these programmes and the effectiveness with which they interact could have significant effects in improving the efficiency of the labour market and, over time, supporting higher levels of sustained employment.

I: Implementation

The new NMW rates will apply to pay reference periods beginning on or after 1 October 2008. The amendments relating to employment programmes and extended Work Trials will come into effect from the day after the amending regulations are made. Compliance with the new provisions will be checked by HMRC. HMRC investigate complaints about situations where workers may not be being paid the NMW and also investigate companies where HMRC believe there is a high risk of non-compliance.

J: Monitoring and evaluation

The government has asked the LPC to monitor, evaluate and review the NMW and its impact, with particular reference to the effect on pay, employment and competitiveness in the low paying sectors and small firms; the effect on different groups of workers, including different age groups, ethnic minorities,

women and people with disabilities and migrant workers and the effect on pay structures. The report is due by the end of February 2009.

Information on enforcement is set out in the government's evidence to the LPC. The evidence is published on the BERR website and copies are placed in House Libraries.

DWP will continue to monitor and assess the operation of Work Trials.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	*Results in Evidence Base?*	*Results annexed?*
Competition Assessment	No	Yes
Small Firms Impact Test	No	Yes
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	Yes
Disability Equality	No	Yes
Gender Equality	No	Yes
Human Rights	No	No
Rural Proofing	No	No

Annexes

Annex A

Coverage estimates of the 2008 uprating by sex and Government Office region

BERR estimates that approximately 1 million workers are covered by the October 2008 uprating of the National Minimum Wage (NMW). This estimate is based on 1p pay bands from the ONS' Annual Survey of Hours and Earnings (ASHE) 2007, and takes account of actual and forecast average earnings growth between April 2007 and October 2008. Of the estimated 1 million workers covered, around two thirds will be women.

Table A1. Number of workers that are covered by the October 2008 National Minimum Wage uprating by age and sex

	Male	Female	Total
16-17	20,000	10,000	30,000
18-21	50,000	40,000	100,000
22 and over	260,000	530,000	800,000
Total	330,000	590,000	920,000

Source: BERR estimates based on ONS' Annual Survey of Hours and Earnings (ASHE) 2007

Note: These data are based on 1p pay bands from the ONS ASHE and take account of actual and forecast average earnings inflation between the period Spring 2007 and October 2008; uprating from £3.40 to £3.53 for 16-17 year olds, £4.60 to £4.77 for 18- 21 year olds and from £5.52 to £5.73 for those 22 and over. ASHE 1p pay bands measure number of jobs; therefore coverage estimates assume workers do not hold more than one job at the NMW. Figures have been rounded to the nearest 10,000. Numbers may not sum to total due to rounding.

Coverage estimate by country and Government Office region are also provided (Table A2).

Table A2. Number of workers that are covered by the October 2008 National Minimum Wage uprating by country and government office region

Country or region	Coverage estimate
Wales	50
Scotland	90
Northern Ireland	40
England	740
North-East	60
North-West and Merseyside	120
Yorkshire & Humberside	80
East Midlands	80
West Midlands	100
Eastern	80
London	70
South East	90
South West	70
United Kingdom	**920,000**

Source: BERR estimates based on ONS' Annual Survey of Hours and Earnings (ASHE) 2007

Note: These data are based on 1p pay bands from the ONS ASHE and take account of actual and forecast average earnings inflation between the period Spring 2007 and October 2008; uprating from £3.40 to £3.53 for 16-17 year olds, £4.60 to £4.77 for 18- 21 year olds and from £5.52 to £5.73 for those 22 and over. ASHE 1p pay bands measure number of jobs; therefore coverage estimates assume workers do not hold more than one job at the NMW. Figures have been rounded to the nearest 10,000. Numbers may not sum to total due to rounding.

Annex B

SPECIFIC IMPACT TESTS

1. Competition Assessment

Business sectors affected

The NMW provides a floor for wages and therefore ensures that firms cannot compete against each other by driving down wages to unacceptable levels. Most of the sectors where the impact of the NMW is felt most keenly are characterised by large numbers of relatively small firms. To the extent that the NMW increases labour costs, these are borne by all employers in a sector. It is therefore unlikely that the NMW creates significant barriers to entry.

We have fully considered the questions posed in The Office of Fair Trading competition assessment test[23] and conclude that clarifying the exemptions for those participating in employment programmes, extending work trials or uprating the NMW is unlikely to hinder the number or range of suppliers or the ability and incentive for businesses to compete. Although the effects of extended work trials alone are expected to be small, it supports an increase in labour supply, increasing the efficiency of the supply side of the labour market.

Table A1. Competition assessment.

Question: *In any affected market, would the proposal..*	Answer
..directly limit the number or range of suppliers?	No
..indirectly limit the number or range of suppliers?	No
..limit the ability of suppliers to compete?	No
..reduce suppliers' incentives to compete vigorously?	No

Source: BERR

2. Small Firms Impact Test

The LPC's remit required them to consider the impact of the NMW on small firms. Their recommendations were based upon extensive analysis and gathering of evidence, including evidence received from, and discussion with, small businesses and their representatives.

As indicated earlier, Local Employment Partnerships will be an important source of opportunities for the new extended Work Trials. Through LEPs Jobcentre Plus are seeking to engage employers across a wide range of different sectors, securing stronger commitments to take people on from the most disadvantaged jobless groups in return for a more personalised and flexible recruitment service.

Over 600 employers have already signed up to LEPs, with an initial focus on larger employers in the sectors that account for the greatest proportion of Jobcentre Plus' current business. However, small and medium size enterprises account for about half of all new vacancies, and JCP will increasingly be looking to use LEPs, and opportunities such as Work Trials that form one part of it, as a way of engaging smaller firms.

[23] http://www.oft.gov.uk/shared_oft/reports/comp_policy/oft876.pdf

3. Equality Impact Assessment

NMW uprating

In line with better regulation best practice and the Equalities Duties we have considered the impact of the NMW uprating on minority groups.

Who will be affected?

The Low Pay Commission has carefully monitored the position of women, ethnic minorities and people with work limiting disabilities in relation to the NMW uprating.

Gender

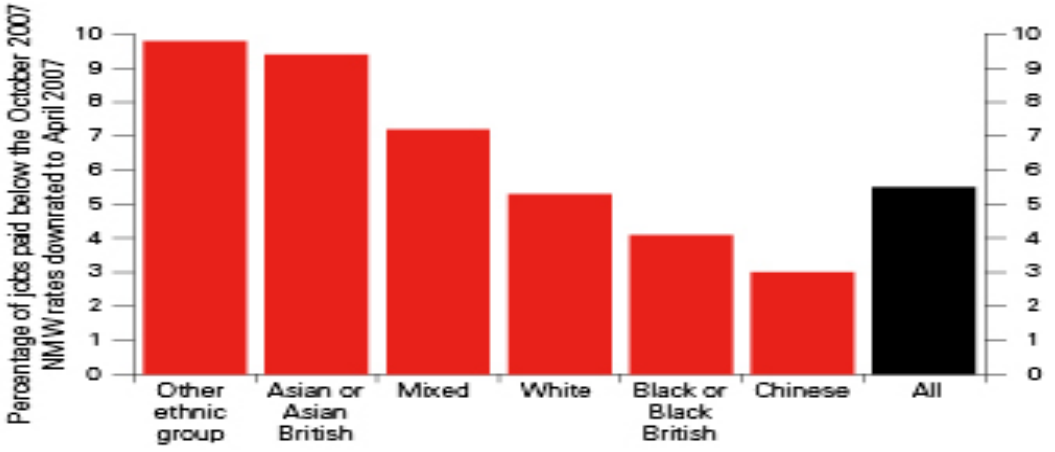
The gender pay gap including and above the middle of the earning distribution is largely independent of the NMW. However, towards the lower end of the distribution the reduction in the gender pay gap is most obvious, declining from 10.5 per cent in 1998 to 3.8 per cent in 2007 – bottom 5th percentile. This suggests that the NMW has had a major impact in reducing the gender pay gap among the low paid.

We estimate that around 590,000 women will be covered by the October 2008 upratings.

Ethnicity

Workers from the ethnic minorities are more likely to be employed in the low paying sectors as compared to their white counterparts. There is evidence that the earnings position of the ethnic minorities has improved towards the lower end of the distribution since the introduction of the NMW. An estimate by the LPC suggests that 7.7 per cent of the employees from ethnic minority groups were covered by the October 2007 uprating in the NMW compared to 5.3 per cent of white employees (see chart below).

Estimated coverage of 2007 upratings of the National Minimum Wage by Ethnic group of employees aged 16 and over, UK, 2007



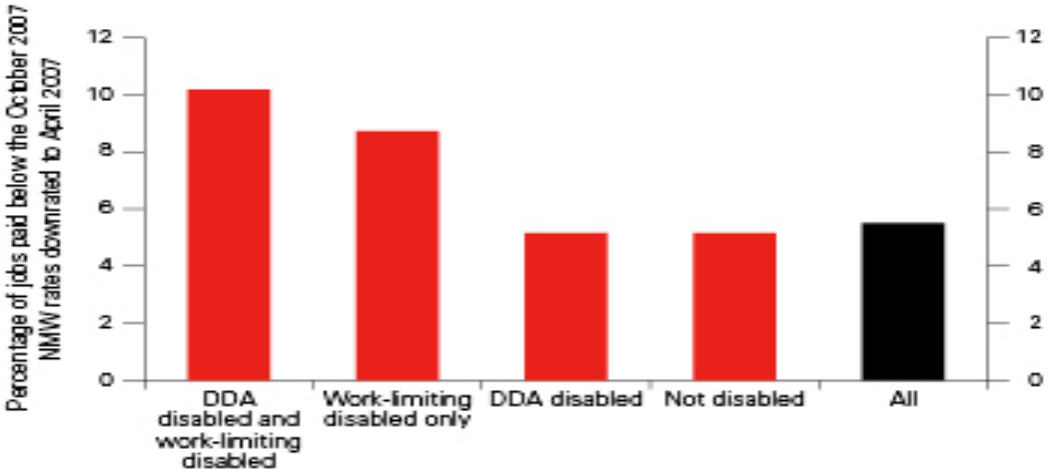
Source: ONS estimates based on LFS microdata, not seasonally adjusted, UK, Q2 2007.

Note: Covered employees defined as adults (aged 22 and over) earning less than £5.40, youths (aged 18–21) earning less than £4.50 and 16–17 year olds earning less than £3.32 in April 2007.

Work limiting Disability

As illustrated in the figure below an increasing proportion of workers with work limiting disabilities continues to benefit from increases in the minimum wage. The October 2007 uprating covered 8.7 per cent of the employees with work limiting disabilities, compared to 5.2 per cent of workers without such disabilities. This proportion increases to 10.2 per cent if we consider workers having a work limiting disability and workers having disability as defined in the disability discrimination act (DDA).

Estimated coverage of 2007 upratings of the National Minimum Wage by Disability for employees aged 16 and over, UK, 2007



Source: ONS estimates based on LFS microdata, not seasonally adjusted, UK, Q2 2007.

Note: Covered employees defined as adults (aged 22 and over) earning less than £5.40, youths (aged 18–21) earning less than £4.50 and 16–17 year olds earning less than £3.32 in April 2007.

Consultation with stakeholders in relation to the October 2008 uprating of the NMW

The LPC entered extensive formal and informal consultation with the interested parties such as worker and employer unions[24]. The LPC visited different parts of the UK to talk to individuals and businesses directly affected by the National Minimum Wage. The LPC also spent two days listening to the oral evidence from stakeholders. In addition to these formal exercises the LPC was also involved in many informal meetings and visits involving the businesses and other interested groups. The increase in the NMW is unlikely to have any intentional specific impact in terms of race, gender and disability as it is a broad policy and is targeted at a broader group of people (paid at or below the NMW) rather than any specific minority group.

Removal of barriers which hinder equality

The NMW policy is a broad policy and is designed to have a positive impact on all workers in low paid sectors regardless of their gender, race or disability. Therefore the current NMW uprating is unlikely to create any barriers to equality in terms of gender, race and disability. The LPC[25] have concluded that women, ethnic minority groups and people with work-limiting disabilities have become more involved in the labour market over the last ten years and there is no evidence of an adverse impact on their employment due to the minimum wage.

[24] The parties of the consultation included BRC, CBI, BCC,BRC,BATC,BBPA,TUC,PCS,NUS etc

[25] National Minimum Wage , Low Pay Commission report 2008 (http://www.lowpay.gov.uk/lowpay/report/pdf/2008_min_wage.pdf)

Extended Work trial equality issues

The extension of Work Trials is part of a shift in the focus of active labour market help from people on unemployment benefits to people on 'inactive' benefits such as lone parent and incapacity benefits.

This shift is likely to improve the relative employment situation for women because, while women make up about half of all benefit claimants, they account for a disproportionate share of recipients of some inactive benefits. Over ninety percent of lone parents in Great Britain are female. Female lone parents are more likely than male lone parents to be out of work (43.5 percent of lone mothers are not employed compared to 35.3 percent of lone fathers) though this gaps narrows for parents of older children. Lone parents who engage in work focused interviews, join the New Deal for Lone Parents (NDLP) or take party in other programme support will all be eligible to take up extended Work Trials.

The Incapacity Benefit caseload has fallen from a high of 2.77 million in May 2003 to 2.64 million in May 2007, its lowest level in seven years. Programmes such as Pathways to Work and the New Deal for Disabled People have already had some success in boosting the number of disabled people moving into work. Extended Work Trials, alongside other initiatives such as Local Employment Partnerships, will help to maximise the benefits of the investment these programmes have made in participants' skills and motivation by linking them more effectively to job vacancies. Alongside this Work Trials provide an opportunity to seek commitment from employers to consider the widest range of possible candidates, including those from groups, such as disabled people, that they might otherwise overlook.

While about 1 in 10 of the working age population in Great Britain has an ethnic minority background, about 15% of NDLP (New Deal for Lone Parents) participants are from an ethnic minority, while 20 percent of long-term JSA (Job Seekers Allowance) claimants also have an ethnic minority background. Nearly 1 in 10 of the disabled working age population comes from an ethnic minority background—similar to their share in the overall population.

With extended Work Trials open to on long-term JSA claimants, all recipients of inactive benefits, and all jobless people in the most disadvantaged wards (where many people from ethnic minorities live) the programme aligns well with the aim of drawing local ethnic minority populations into job vacancies in local firms.

However, as the Work Trial programme itself is small in scale, the effects from Work Trials alone are also likely to be small.