

MINISTERIAL FOREWORD

The National Minimum Wage is one of the key elements, alongside Working Tax Credits and the New Deal, of this Government's strategy to make work pay and to help people into employment. We believe that the minimum wage is now firmly established as a permanent feature of the modern labour market and generally recognised as an outstanding success.

A key feature of the year was the increase in the main and development rates to £4.10 and £3.50 respectively from 1 October 2001. This entitled higher minimum rates of pay for around 1.5 million low paid workers across the UK without causing any significant problems for the economy. Around 70% of those benefiting from the uprating were women.

The vast majority of employers are complying with the minimum wage. However, where employers fail to meet their obligations, our compliance officers are being effective in identifying cases, investigating complaints and establishing wages arrears. Our record is a good one but the Government is not standing still. Substantial extra funds are going into enforcement and we have increased the number of enforcement teams around the UK from fourteen to sixteen. We are continuing to address a key recommendation from the Low Pay Commission by taking forward pilot projects in different parts of the UK, to try different ways to tackle non-compliance in businesses and communities where workers have been reluctant to report non-compliance.

We hope you find this report an interesting narrative on the progress the Government has made in tackling low pay for those who are most vulnerable in society.

Alan Johnson

Minister of State for Employment Relations, Industry and Regions

Dawn Primarolo

Paymaster General

SECTION 1: AWARENESS AND EDUCATION

Awareness and Publicity

The Government and the Low Pay Commission continue to recognise that a truly successful national minimum wage needs to be widely known about and willingly complied with. That is why Section 50 of the National Minimum Wage Act 1998 requires the Secretary of State to draw the Act and Regulations to the attention of those affected by it. Volume II of the 3rd Low Pay Commission Report, published in June 2001, recommended that “there should be further publicity for the headline rate of the NMW as well as the existence of the enforcement service and the minimum wage helpline number”.

To this end, the Government in September/October 2001 ran a nation-wide publicity campaign to coincide with the changes to the development and main rates on 1 October 2001. This campaign was biased towards large circulation national tabloids, supported by adverts in the broadsheets, trade press and selected women’s magazines and TV listings. The Department of Trade and Industry also updated guidance aimed at both employers and employees, and also made this available in Braille, audio, large print and a variety of ethnic languages, including the main Asian languages.

The objective of the campaign was to inform employers and workers of the new rates and to encourage both groups to contact the helpline for more information and advice. If workers thought they were being underpaid they were encouraged to ring the helpline and make a formal complaint. All complaints to the helpline are fully followed up.

During the six weeks of the publicity campaign, the minimum wage helpline received around 20,000 calls, an increase of 55% on the previous six weeks leading up to the campaign. As the minimum wage becomes increasingly an accepted part of the labour market, we expect awareness of the minimum wage to remain at high levels.

The minimum wage is set to increase again on 1 October 2002, and although outside the timing of this report, there will be a publicity campaign during September and October 2002, to announce the increase to the main and development rates. The new rates will be:

- £4.20 per hour for those aged 22 years or above
- £3.60 per hour for 18 – 21 year olds

Awareness and Guidance

As well as paid publicity, the Government has taken a number of other steps to ensure that awareness and understanding of the law remains high. These include:

- The interactive website (*www.tiger.gov.uk*) which provides the user with a decision tree and ready-reckoners to help them assess their own entitlements. In the year 2001/2002 usage of the site increased by over 70%. Each month more than 4,000 people visited the site many of them on more than one occasion.
- The Department of Trade and Industry and the Inland Revenue continue to receive requests to make presentations and answer questions on the minimum wage at seminars and conferences organised by a wide variety of intermediaries. Under the heading of CROW (Customer Responsive Outreach Work), in 2001/02 16 presentations were made.
- Working closely with local communities and relevant groups to improve compliance with the minimum wage (see Enforcement Pilot Projects, page 20).
- Throughout 2001/02, the Inland Revenue held a series of tax/national insurance awareness events in towns and cities across the UK. The Revenue's minimum wage staff attended all of these events.
- Information about the minimum wage rate changes and the helpline is also included in the Inland Revenue's employer bulletins, which reaches about 1.5 million tax-registered employers. Information about the minimum wage is also included in the Small Business Service Employment Law Update, which is sent to a similar number of employers.

SECTION 2: COMPLIANCE AND ENFORCEMENT

Background

The National Minimum Wage Act 1998 has been in force for over three years and sets a minimum level beneath which pay must not fall.

Even with publicity and a high level of awareness of the minimum wage some employers fail to comply either deliberately or inadvertently. To counter this the Government appointed the Inland Revenue as the enforcement body in 1998 to ensure implementation of the Act was fair and effective, without introducing any unnecessary burdens on business.

The Revenue has enforced minimum wage since 1 April 1999. Enforcement activity is governed by a Service Level Agreement between the Department of Trade and Industry (customer) and the Revenue (service provider). Under the terms of the agreement the Revenue agrees to provide information, inspection and enforcement services; to respond to enquiries and complaints from workers, employers and third parties; and to ensure that employers comply with the minimum wage legislation. In fulfilling this role, the Revenue has operated a helpline and network of compliance teams since 1 April 1999.

Enforcement of minimum wage in the agricultural sector is undertaken by the Departments and Agencies with responsibility for agricultural matters in England and Wales, Scotland and Northern Ireland. These bodies already had responsibility for enforcing agricultural minimum wages (see Annex B) before the national minimum wage was introduced.

Under the National Minimum Wage Act 1998, a worker has the right to receive the minimum wage and can enforce this right by taking their case to an employment tribunal or civil court. The Government did not want workers to have to rely on taking action against their employer themselves, as intimidation or fear of losing their job could prevent a worker from making a complaint. The Act therefore allows for

the appointment of enforcement officers to act on behalf of workers, where they identify that a business is failing to fulfil its obligations.

ENFORCEMENT OPERATIONS

Helpline

The dedicated helpline is staffed by experienced call agents based in Longbenton, Newcastle-upon-Tyne. It handles enquiries on all aspects of minimum wage from workers, employers and third parties. It also deals with requests for minimum wage guidance material and leaflets. All callers have the opportunity to register a complaint about underpayment of the minimum wage, with the option of doing so anonymously if they wish. Details of complaints made are forwarded to the relevant compliance team to be followed up. The telephone numbers are **0845 6000 678** for enquiries (Monday to Friday 8am to 6pm), and **0845 8450 360** for guidance material (24 hour automated service). Calls are charged at local rates.

During 2001/2002 over 79,000 enquiries were received at the helpline. Over 94% of calls were answered within 15 seconds.

Since 1 April 1999 the helpline has responded to more than 275,000 enquiries and handled over 7,500 complaints about non-payment of the minimum wage.

Central Information Unit

The Central Information Unit (CIU) is located alongside the helpline and fulfils various functions:

- It provides technical support to the helpline's call agents by dealing with the more complex telephone and written enquiries;
- It collates statistical data on the Revenue's enforcement performance, which is provided to the Department of Trade and Industry monthly in accordance with the Service Level Agreement;

- It acts as the hub within the Revenue for all minimum wage communications, keeping compliance officers continuously updated on changes to the law and enforcement procedures;
- It has responsibility for collating and analysing data received from various sources, including third party information and tax credit data.

Officers at the CIU analyse information gathered from across the Revenue to identify employers suitable for enquiry by minimum wage compliance teams. This has helped to focus efforts on those employers most at risk of not paying the minimum wage and to reduce the burden on compliant businesses.¹

Exchange of information is strictly controlled. The Inland Revenue use risk assessment processes to identify employers that are more at risk of not paying minimum wage than others.

Lastly, it co-ordinates the Customer Responsive Outreach Work (CROW) undertaken by the Department of Trade and Industry and Revenue compliance officers. This is a small dedicated team which responds to requests from groups all round the UK to talk about the minimum wage. The team aims to reach as wide an audience as possible including:

- 1) Voluntary organisations representing various trade sectors
- 2) Community organisations representing ethnic minorities
- 3) Citizens Advice Bureaux
- 4) Low Pay Units
- 5) Trade Unions
- 6) Large employer groups

¹ The legislation that permits information exchange between national minimum wage and taxes staff can be found in Section 39 of the Employment Relations Act 1999 and Section 148 of the Finance Act 2000.

During 2001/2002 the CROW team attended 16 events in various locations throughout the UK.

Compliance Teams

Situated in towns and cities throughout the UK, there are currently 16 compliance teams who investigate all complaints about non-payment of the minimum wage referred to them via the helpline. They also undertake a programme of visits to employers identified by CIU as more likely to be non-compliant.

In 2001/2002, the Revenue reviewed the distribution of their minimum wage resource in order to ensure that, in areas where complaints have been most prevalent, there was sufficient resource to meet demand. Originally there had been 14 compliance teams, but in consultation with the Department of Trade and Industry it was agreed that to meet the demands of more complex casework an increase in resources was required.

The result was a merger of the teams based in Kensington and Romford to create a single team in one location with approximately the same number of compliance officers as before; and the formation of three new teams in Leicester, Wigan and Shipley. These teams were set up from 1 April 2002.

With effect from 1 April 2002, the number of compliance staff deployed to enforce the minimum wage was 97, this compares with 77 reported in the first year. In consultation with the Department of Trade and Industry, the Revenue will continue to monitor the effectiveness of enforcement activity and will redirect resource as necessary.

In 2001/02 compliance teams identified over £5 million in wage arrears, an increase of almost £2 million on the previous year.

In 2001/02, 36% of employers investigated by compliance officers were found not to be paying the minimum wage. This represents a 6% increase on the previous year and a 16% increase on the first year of enforcement.

Minimum wage work is now becoming embedded in the Inland Revenue's business generally and the techniques for spotting potentially non-compliant employers are being refined. This has helped to improve efficiency in gathering information and in applying resources based on that information, which in turn has led to better results in identifying more wage arrears for more people.

DATA ON ENFORCEMENT

Central Enforcement Operations

During 2001/2002, the helpline in Longbenton handled over 79,000 enquiries, most of which were calls made directly to the helpline's call agents. The number of enquiries received, and the way contact was made, is consistent with that seen during 2000/2001. Figures A1 and A2 provide details of the number of enquiries received during the first three years of minimum wage.

	1999/2000	2000/01	2001/02
Live	88,184	69,269	75,346
Auto	24,786	4,776	3,036
Written	2,169	1,240	793
Coupons	3,877	2,158	11
TOTAL	119,016	77,443	79,186

figure A.1

Key to *figure A.1*:

- LIVE = the number of enquiries handled by a telephone operator.
- AUTO = the number of calls to the automated line requesting literature.
- WRITTEN = the number of written enquiries received.
- COUPONS = the number of coupons sent in from previous advertising campaigns that invited readers to contact us using coupons published in newspapers and magazines.

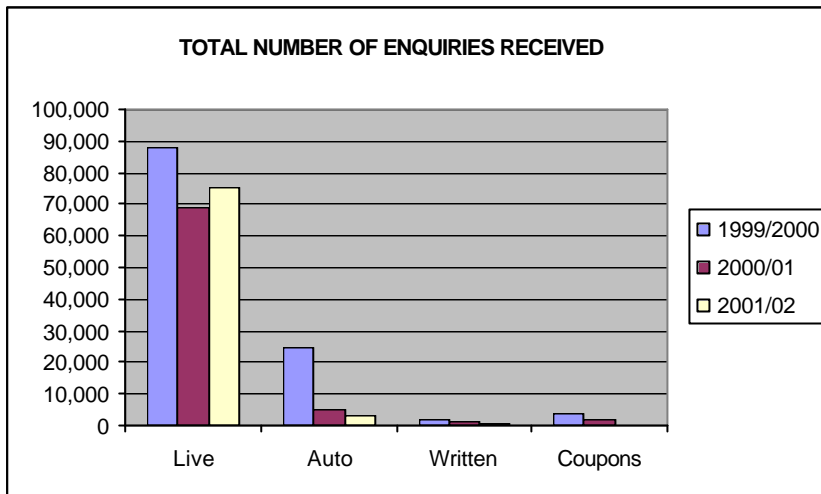


figure A.2

The volume of calls increased substantially in the weeks leading up to 1 October 2001 when both the development rate and the main rate were set to increase.

- The development rate increased from £3.20 per hour to £3.50 per hour
- The main rate increased from £3.70 per hour to £4.10 per hour

Calls peaked during October with over 14,000 calls being received in that month alone. Figure B.1 below illustrates call levels for each month in 2001/02 for the live and automated line.

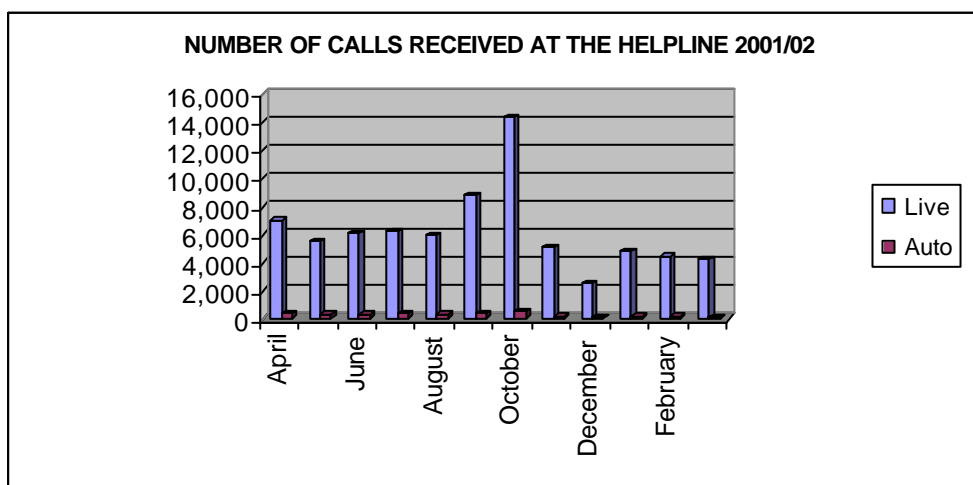


figure B.1

Network Enforcement Activity

The 14 compliance teams in place during 2001/2002 completed over 5,300 investigations during the course of the year. The number is down on the previous year and this can be attributed to the increasing complexity of many minimum wage enquiries and consequently the additional time required to complete an investigation.

Investigations fall into three categories: '*Complaints*', '*Tax Credit Referrals*' and '*Other*'.

- ❑ '*Complaints*' cases are investigated as a result of a complaint being made about non-payment of minimum wage.
- ❑ '*Tax Credit Referrals*' are investigated as a result of information gathered from the Inland Revenue Tax Credit Office.
- ❑ '*Other*' cases are investigated as a result of the analysis work done at the Central Information Unit to identify employers most at risk of non-compliance.

Figure C.1 provides details of the number of employers subject to a completed investigation during the first three years of enforcement, and the origin of the investigation.

	1999/00	2000/01	2001/02
Complaint and 3rd Party	3,509	2,514	1,763
WFTC	N/A	1,908	2,567
Other	2,532	2,834	1,038
TOTAL	6,041	7,256	5,368

figure C.1

Figure C.2 below illustrates the number of cases closed by type over the first three years of operations.

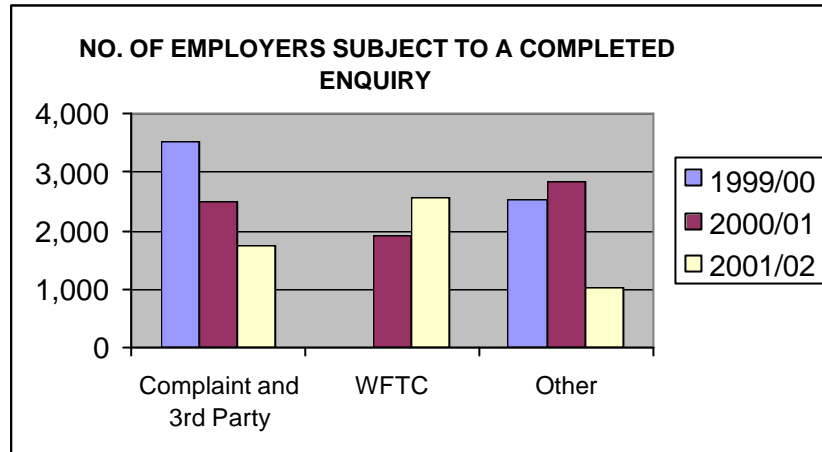


figure C.2

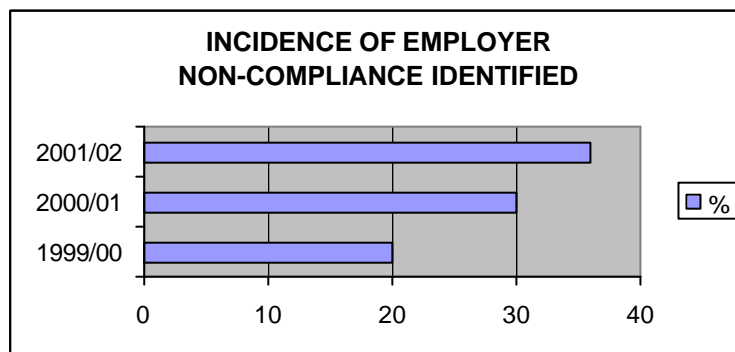


figure D.1

In figure D1 above we have illustrated the levels of non-compliance identified in the first three years. The increase in the incidence of non-compliance identified has been achieved through improved methods for pinpointing employers most at risk of not paying the minimum wage, extensive training for compliance officers and the benefit of three years experience to draw upon. This has enabled the Inland Revenue to focus efforts in the right place and provide good casework for compliance teams.

In 2001/02, the Revenue introduced a Compliance Quality Initiative (CQI) for their minimum wage casework, which has also contributed to the positive outcomes achieved in the year. The last Annual Report explained that the Revenue would be

introducing CQI and that it would replace the performance against quality standards that had previously been used to measure the quality of investigations.

Identifying National Minimum Wage Arrears

The amount of arrears identified has again increased substantially in 2001/02.

Figures E.1 and E.2 show the total arrears identified by case type during the first three years of minimum wage.

	1999/00	2000/01	2001/02
Complaint	992,906	1,792,955	1,710,986
3rd Party	90,596	216,083	2,217,915
WFTC	N/A	820,689	1,096,669
Proactive	158,839	204,646	110,229
TOTAL	1,242,341	3,034,373	5,135,799

figure E.1

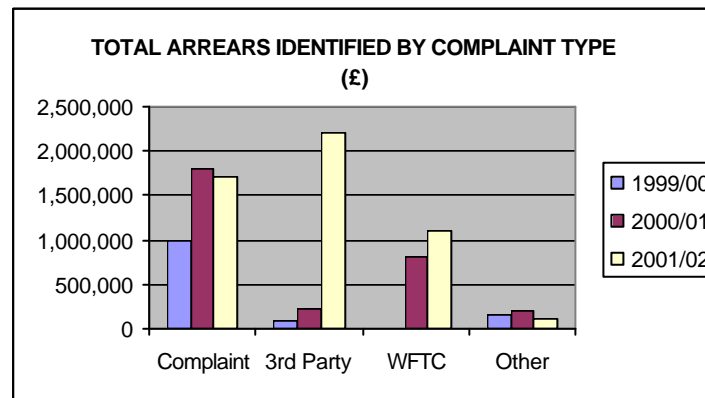


figure E.2

As we move into the fourth year since the minimum wage was introduced, the period in which non-compliance may potentially have occurred extends, as does the period that a compliance officer may be investigating. As a result, identifying and calculating the arrears due to workers has become more complex and takes longer.

Figure F.1 shows how the average arrears identified per worker during the first three years of minimum wage has increased each year.

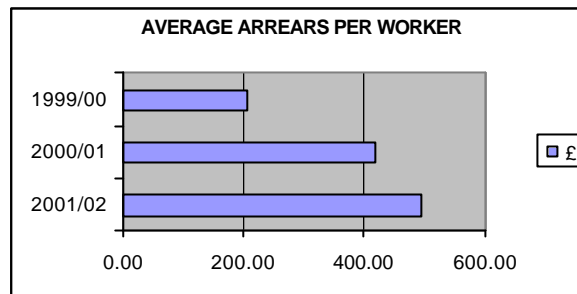


figure F.1

In 2001/2002, compliance officers issued 86 enforcement notices and 65 penalty notices. Twenty-seven cases were heard by an employment tribunal, either as a result of an appeal by the employer against the enforcement notice, the Revenue taking a case on behalf of workers, or both. A successful outcome in favour of the worker was achieved in 17 of the cases. At the time of this report being published we are awaiting a judgement or an appeal outcome in five more cases. Five tribunal decisions were decided against the Revenue.

Data on complaints about non-payment of minimum wage

The number of complaints received during 2001/2002 was on a par with the number received during the previous year. As in previous years, the majority of complaints received are from adult workers between the ages of 22 and 60. Figures G.1, G.2 and G.3 illustrate the number of complaints received from workers during the first three years of minimum wage, by reference to their age.

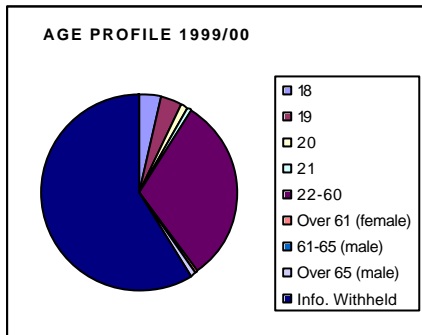


figure G.1

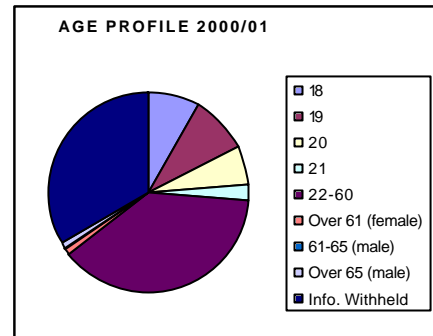


figure G.2

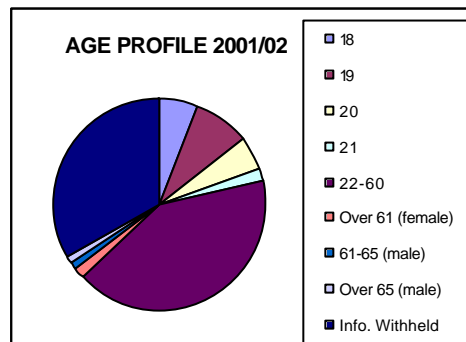


figure G.3

Callers to the helpline are routinely asked to provide their date of birth, but many that wish to register an anonymous complaint about underpayment of minimum wage are reluctant to provide this information. As a result, a high number of complaints with no data about the age of the complainant are received.

Complaints during 2001/2002 were again received in equal numbers from male and female workers. Figure H.1 illustrates the number of complaints received by gender during the first three years of minimum wage. The Inland Revenue have not yet been able to establish why complaints are received in equal numbers from men and women, when the expected ratio would be weighted towards female workers, who tend to work in lower paid sectors. We intend to look more closely at this issue.

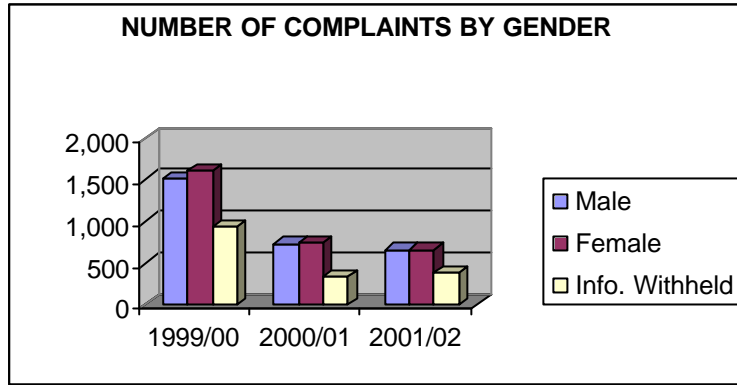


figure H.1

Figure I.1 illustrates the number of complaints received by trade sector. The pattern seen across 1999/2000 and 2000/2001 is reinforced by the results for 2001/2002, with each sector attracting complaints in similar ratios to earlier years. Reasons behind the increase in the number of complaints recorded under ‘Other Services’ are not clear at this stage. Other Services include non-manufacturing business together with categories not included elsewhere. As part of our programme of risk analysis we will be reviewing the data from our closed cases to see if we can identify any trends developing in this sector, and consider an exercise to re-categorise some of the work into new or different sectors.

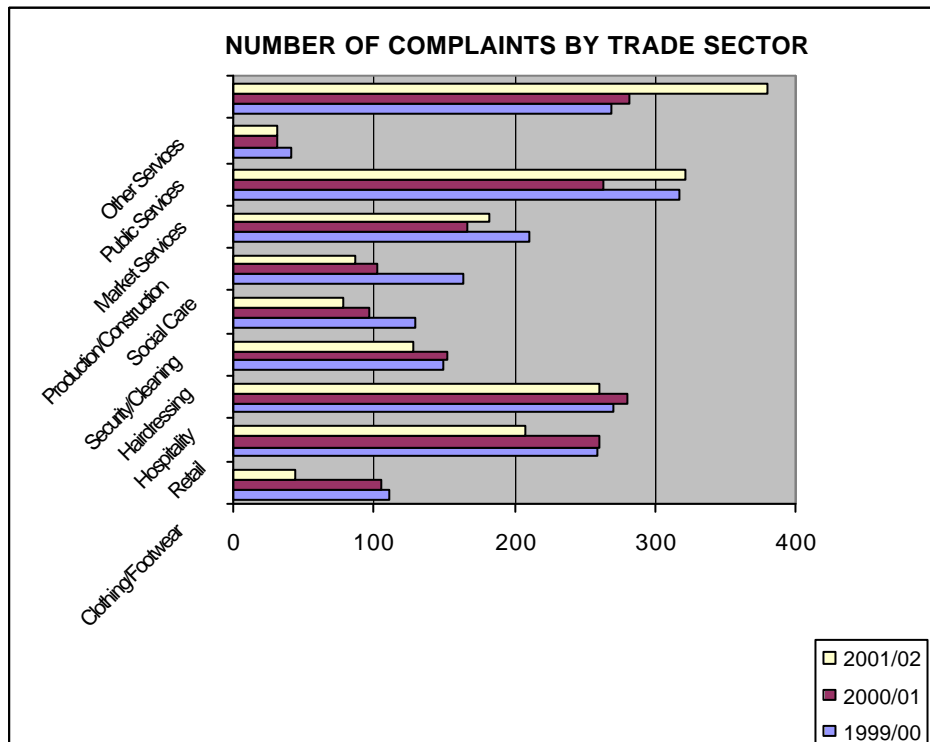


figure I.1

Figure J.1 illustrates the number of complaints received by geographical location.²
 The results for 2000/2001 and 2001/2002 are very similar, with the highest incidence of complaints in Yorks/Humberside and North West.

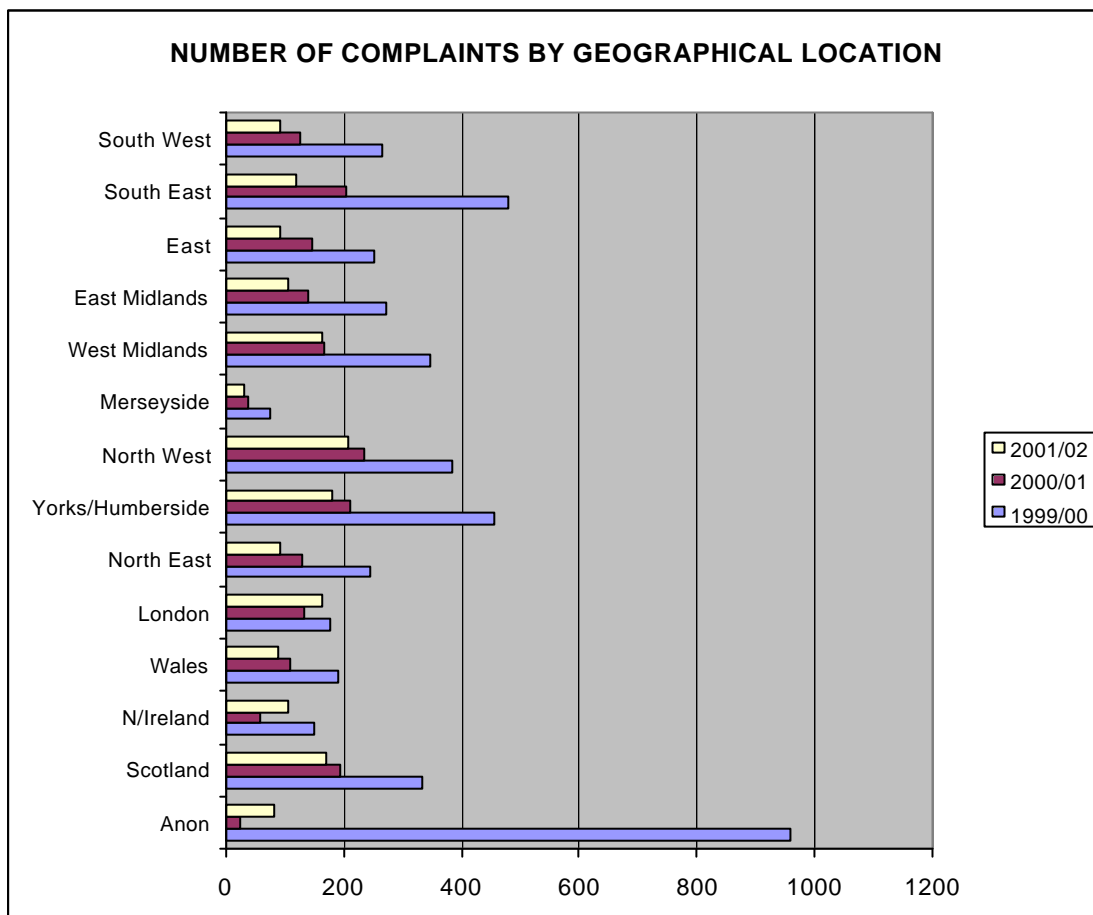


figure J.1

² The statistics are recorded in accordance with Government Office Regions rather than the regions in which the compliance teams are based.

REAL LIFE EXAMPLES

The compliance teams continue to record notable successes as a result of their enforcement activity. They are often thanked for the work that they have done on behalf of workers, and in assisting employers endeavouring to comply with the minimum wage. The following examples demonstrate the positive outcomes achieved in different parts of the country and in different trade sectors.

The examples are all anonymised due to the Revenue's rules on confidentiality.

Wales

A homeworker assembling crackers complained about non-payment of the minimum wage. The employer was initially of the opinion that homeworkers were not "workers" for the purposes of the legislation, but after the compliance officer explained the position, he accepted that they were and contacted the National Group of Homeworkers to assist him in drawing up a fair estimate agreement.

Over £8,600 in wages arrears was identified for the workers in this case.

In another case involving homeworkers the employer contended that the workers were self employed and therefore not subject to minimum wage legislation. An Employment Tribunal decided in favour of the homeworkers.

Over £15,000 in arrears was secured for 23 workers.

Scotland

Information received from a third party suggested that a bus company had not been paying its drivers the minimum wage. The claim was investigated and enquiries revealed that 14 drivers had been underpaid.

Over £5,000 in wages arrears was identified.

A written complaint about non-payment of the minimum wage was received from a worker employed by a kennel. The investigation revealed that a total of five workers had been underpaid.

The arrears identified as due to the workers totalled over £13,000.

Local authority workers carrying out caretaker duties had been seeking payment of the minimum wage from their employer since its introduction in April 1999. In the summer of 2001 they finally sought the assistance of a minimum wage compliance team who advised the local authority of its obligations.

Three workers shared arrears in excess of £25,000.

South West

An employer suggested that he was doing a favour for a worker with limited ability by allowing him to work for a modest wage. The worker suggested that he was a member of the workforce and was therefore disappointed that his employer was reluctant to pay a fair wage. A complaint was received at the minimum wage helpline and referred to the compliance team for investigation.

Arrears totalling over £6,000 were identified.

Northern Ireland

A worker complained that while employed as a night sitter in a residential home she did not receive the minimum wage. The compliance officer visited the employer who agreed payment of arrears to the worker but suggested that they had employed a similar payment practice to that of a local health trust. The compliance officer later visited the health trust concerned.

Arrears totalling £25,000 benefiting almost 100 workers were identified.

An employer engaged several hundred workers each year to carry out annual surveys. Workers received lump sum payments without reference to any estimate or

measurement of actual hours worked. The compliance officer identified that a number of workers were paid less than the minimum wage for the hours they had worked.

Wage arrears totalling £6,500 were identified for over 130 workers.

South East

A worker employed by a property development company made a complaint to the helpline. He was a caretaker in a private block of flats, and there was a dispute over the number of hours taken by the worker to complete his daily duties. The compliance officer was able to establish the hours worked and persuaded the director to accept her findings.

The company paid £2,662 in wage arrears to the worker just in time for Christmas and his 80th birthday!

A compliance officer investigated a failure to pay the minimum wage to an 81 year-old worker who was employed as a car polisher. The company was unaware of their liability to pay pensioners the minimum wage and promptly paid arrears.

Arrears identified totalled £3,000

Yorkshire

A worker complained that he and his colleagues were not being paid the minimum wage. All were Residential Officers at a city University who lived on campus, but although provided with free accommodation they were not paid any wage. Accommodation provided does count towards the minimum wage (up to a maximum of £22.75 per week) but in this case it did not equate to the minimum wage for every hour worked, which the workers were entitled to.

Arrears totalling £137,000 were identified for 27 workers.

Four apprentices complained about non-payment of the minimum wage to the helpline. They were employed by an engineering company, which employed 240

workers. A review of the employer's records established that the company had failed to increase wages once the exemption period for the apprentices had expired. Twenty-two apprentices were identified as not receiving at least the minimum wage.

Wage arrears identified totalled £12,017 with the largest individual payment being £2,939.

A complaint was received from a former worker of a mortgage advice company because she had worked some weekends and not been paid. The employer had kept no records and denied that weekends had been worked. Evidence was gathered that supported the worker's claim and the employer eventually agreed to pay the wage arrears identified for this worker and two other workers identified as being paid below the minimum wage as a result of the investigation.

Wage arrears identified totalled over £2,500 for the people involved.

A part-time car driver and car cleaner was paid £50 per week for working 16 hours. When enquiries were made of the employer he confirmed this was the case, saying that he was unaware of the existence of a minimum wage. He did however agree that wage arrears were due and agreed to ensure that the minimum wage was paid from now on.

Arrears identified totalled £1,367.

North

A worker employed by one of the top 100 blue chip construction companies complained to the helpline that he had not been paid the minimum wage. The compliance officer established that the company had misunderstood the rules for apprentices and accepted that arrears of wages were due.

186 workers benefited from total arrears identified of more than £130,000.

Six workers who had been employed as sales representatives for a building hardware retailer complained that they had not been paid for all the hours they worked. The employer was not able to produce any records of pay for hours worked and was keen to pay the arrears identified without recourse to an employment tribunal.

Arrears totalling £7,477 were identified for the 6 workers.

ENFORCEMENT PILOT PROJECTS

Background

In their second report (published in February 2000) the Low Pay Commission recommended that the Government should fund a small number of community-based pilot projects in areas where compliance with the minimum wage could be improved. The Government accepted this recommendation. In 2000/2001 the DTI and the Revenue therefore established seven pilot projects with outside partners in various parts of the United Kingdom.

By their nature these projects are located where workers are vulnerable and at risk of non-payment of the minimum wage. With some of the projects we have worked with community intermediaries to reach deep into local communities to contact workers whose first language may not be English. Similarly workers who may otherwise be afraid or unwilling to contact the Inland Revenue or other official authorities to complain are also targeted and encouraged to come forward.

Progress in 2001/02

Local Helplines

- The Hull City Council “Fair Pay? Fair Play” project was supported by local radio publicity and produced a number of worker complaints about the minimum wage, through a dedicated local telephone number. One of the complaints led to an employment tribunal decision that found in favour of the worker.

- The Revenue has worked in close partnership with the Northern Ireland Association of Citizens Advice Bureaux (NIACAB). We have established a local minimum wage helpline to serve the workforce and employers in Northern Ireland. Since it opened in September 2001 to the end of March 2002, over 1,000 calls were received and some 60 worker complaints have been referred to the regional compliance team for investigation.

The Revenue were delighted to be nominated by NIACAB for a Northern Ireland Council for Voluntary Action Camelot Link Award to recognise the support and commitment of the Northern Ireland helpline.

Working with Community Organisations

- In the East Midlands, the Revenue continues to work with Leicester City Council and the Knitwear, Footwear and Apparel Trades Union to establish a link with the local clothing and textile trades. Workers are encouraged to come forward and complain about non-payment of the minimum wage to a community worker. Despite initial reluctance to complain about their employers, leads from workers are now emerging and the newly formed Leicester minimum wage compliance team is investigating cases. One early notable success secured arrears of over £40,000 to a group of factory workers.
- The Revenue relationship with the National Group for Homeworkers (NGH) is also developing. Extensive outreach work by the NGH, including drop-in-sessions, local publicity campaigns and minimum wage education for local employers in the Bradford area has significantly raised the minimum wage profile in this area.

Other Activity

- The Revenue is partnering the West Midlands Employment and Low Pay Unit to undertake local promotional work to highlight minimum wage issues. This has been achieved through attending business events, blitz sessions outside workplaces and surgeries at community based organisations.

- Scotland and Tyneside Citizens Advice Associations have operated by working through their satellite CAB offices to reach at risk workers. Throughout 2001/2002 both continued to develop their role to contact workers who are not receiving the minimum wage.

New Pilot Projects

In 2001/2002, the Revenue undertook an analysis of historical data to identify areas in the United Kingdom where fewer complaints have been received than anticipated. A pro-active campaign was implemented to address this issue in South Wales, Cornwall and Derby in three ways:

- using local publicity including newspaper advertising;
- working cases in the areas identified through risk analysis;
- working with community groups.

Early signs are encouraging and we are optimistic that this new initiative will help to identify non-compliance and give workers the confidence to come forward and claim their rights under minimum wage law.

This activity allows greater access to the socially excluded and those workers reluctant to contact the authorities that can help them. The partnerships provide a new and different service to those workers who remain exposed to exploitation on low pay, which is intended to complement the existing Revenue work.

All projects are monitored to see what has been successful and how this knowledge can be used to develop other projects. Where successes have occurred they have been based on a sound working relationship between the Revenue and our partners that has put us in a position to tailor our services at a local level to meet customer needs.

SECTION 3: POLICY BACKGROUND

The Act and the Low Pay Commission

The independent Low Pay Commission was set up in July 1997 to advise Government on issues surrounding the introduction of the minimum wage. It was given a statutory footing once the National Minimum Wage Act was passed in July 1998. The minimum wage itself came into force on 1 April 1999.

Third Report of the Low Pay Commission

Volume I

On 5 March 2001, the Government published Volume 1 of the 3rd Low Pay Commission Report. It therefore falls outside the scope of this report. But it may be helpful to note that the Government accepted the Commission's recommendation that the adult rate should increase from £3.70 an hour to £4.10 on 1 October 2001. The Government also accepted in principle that the main rate should increase to £4.20 an hour on 1 October 2002, subject to the economic conditions at the time.

Volume Two

Volume II of the third report was submitted to the Government directly after the General Election and published on 19 June 2001. The Government accepted the main recommendation - that the rate for young people should be increased from £3.20 to £3.50 on 1 October 2001 (and to £3.60 on 1 October 2002 subject to the economic conditions at the time). The Government also agreed to give the Commission permanent status, and a remit in the short term to set up a number of comprehensive research programmes and monitoring exercises, which look in more detail at the longer-term effects of the minimum wage.

The Government also decided to accept the majority of the other recommendations of the Commission, namely:

- i. that the age coverage of the development rate be kept under review;
- ii. that there should be further publicity on the minimum wage rates, the enforcement service and the helpline number before the upratings on 1 October 2001;
- iii. that the Inland Revenue and ACAS should work together closely to monitor compliance and enforcement;
- iv. that the accommodation offset should be increased to a maximum weekly amount of £22.75 or £3.25 per day;
- v. that the Government should consult representatives of output workers and their employers to see whether there was a case for a change in the Regulations on fair estimate agreements;
- vi. that 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.

Recent Developments

In April 2002, the Government announced that they intend to increase the main and development rates of the minimum wage by 10 pence per hour in 1 October 2002, to £4.20 and £3.60 respectively. Around 1.5 million workers will be entitled to higher minimum rates of pay as a result of these increases. As mentioned elsewhere in this Report, there will be a publicity campaign around the time of these increases so workers will be aware of their rights and employers of their responsibilities.

In June 2002, the Government announced new terms of reference for the Low Pay Commission. The Commission has been asked to report to the Prime Minister and the Secretary of State by the end of February 2003. At the same time the Government also announced the appointments of Adair Turner and Angie Risley as the new Chair and Employer Member at the Commission, to replace Professor Sir George Bain and Stephanie Monk who stood down.

**Performance Against Public Service Agreement
and Service Delivery Agreement
Targets and Forecasts**

Public Service Agreement (PSA) 2001/02

The Inland Revenue will agree targets annually with the Department of Trade and Industry, which sponsor minimum wage enforcement work, underpinned by a Service Level Agreement between the two departments. The Revenue's targets and forecasts are published in the Revenue Annual Plan.

Under the Agreement, the Revenue reports progress against these targets to the Department of Trade and Industry on a monthly basis.

They also agree to provide advice and assistance to employers and workers and to investigate complaints about non-payment of minimum wage, enforcing the law where necessary including minimum wage decisions by employment tribunals.

Service Delivery Agreement (SDA) 2001/02

The targets and forecasts in the SDA underpin the PSA above.

	2001/02 Forecast	2001/02 Result
National Minimum Wage Enquiries		
No of enquiries received	50,000	79,186
No of complaints received about non-payment of NMW	2,000	1,722
% of calls answered within 15 seconds	95%	94.16%

National Minimum Wage Enforcement Activity	Target	Result
No of completed compliance cases	7,058	5,368
Incidence of non-compliance identified	50%	36%
Arrears Identified	-	£5.1m

This is a new and developing area of work for the Inland Revenue who are working with the Department of Trade and Industry to refine targets and forecasts as their understanding of minimum wage business improves. In this period the complexity of cases investigated has increased. Consequently, additional time has been required to complete investigations and this has had an impact on the number of cases concluded in the year.

And although the target for percentage of cases where non-compliance identified was missed, the Revenue was very pleased that this represented a significant (6%) increase on the outcome for the previous year.

Quality Standards

The Annual Report for 2000/01 explained that for 2001/02 the Revenue's performance would also be measured against new quality standards in the Revenue's Compliance Quality Initiative (CQI), tailored to meet the needs of minimum wage investigation work.

CQI provides guidance for compliance officers to ensure best practice is applied and that all investigations are carried out to a minimum standard. The aim is that an officer should take time to think about the investigation and to plan the best way to approach it. The objective is to ensure that the right actions are taken at the right time to get the right result.

Under the CQI system, a score of 2.5 indicates that each stage of an investigation has been completed to a satisfactory standard. The results of an independent audit of cases

in January 2002 showing an average case score of 2.76, signified that minimum wage investigations in 2001/02 were carried out to a standard that was better than satisfactory. The audit was carried out by minimum wage Compliance Managers who had had no previous involvement in the cases audited.

Cost of Services Provided

The Inland Revenue supplies enforcement services to the Department of Trade and Industry under a Service Level Agreement and in 2001/02 this role was expanded to include the work that stemmed from the Low Pay Commission recommendations on enforcement. Funding was increased to allow the Revenue to increase resources to meet the demands of this work and the ever-increasing complexity of investigation work.

<u>1999/2000</u>	<u>2000/2001</u>	<u>2001/02</u>
£1.922 million	£3.471 million	£5.6 million
start-up costs	running costs	running costs
£3.471 million		
running costs		

**AGRICULTURAL WAGES: REPORT ON THE THIRD YEAR
(APRIL 2001 - MARCH 2002)**

England and Wales

Introduction

This report covers the third year's work of the Agricultural Wages Team (AWT) based at DEFRA's office in Ergon House. Since 1 April 1999 the AWT, formerly known as the Agricultural Wages Helpline and Compliance Co-ordination Unit (Helpline/CCU), took over, from MAFF Regional Service Centres, responsibility for dealing with queries about provisions in the Wages Order and for handling complaints.

Procedure

When a complaint is received and it appears that the worker has been underpaid, AWT staff attempt to resolve matters by writing to, or in some cases telephoning, the employer and explaining the requirements of the legislation. The aim is to persuade the employer to pay the worker at the correct rate and to pay arrears. If the employer agrees to put matters right by a specific date and the AWT receives confirmation from the worker that this has been done and that he or she is content, the case is closed. If the employer refuses to co-operate or fails to pay the money, the case is passed to an Agricultural Wages Inspector (AWI) to investigate.

A visit from an AWI may be sufficient to prompt the employer to put matters right. Where this fails, an Enforcement Notice may be served. A schedule of arrears attached to the Notice shows the sum due to the worker for the hours worked, holiday taken etc in each pay reference period and sets this against the sum received. The arrears due in each pay reference period are calculated and the total sum due is stated in the Enforcement Notice. (Where an Enforcement Notice relates to more than one worker a separate schedule is required for each worker.) An employer may appeal to an Employment Tribunal against an Enforcement Notice. Provided the Notice is

upheld, the employer is required to pay the arrears due and, if he or she fails to do so, a Penalty Notice may be served.

1 April 2001 - 31 March 2002

The following table gives the number of calls and complaints received from 1 April 2001 to 31 March 2002 with the two preceding years' figures for comparison.

	1999/2000	2000/01	2001/02
Calls to Helpline	2610	3476	4092
Complaint forms received	82	75	45
Cases passed to AWIs	36	37	19
Enforcement Notices issued	2	2	5
Penalty Notices issued	0	0	0
Cases resulting in debt recovery action	0	0	2
Employment Tribunal Appeals	1	2	3
Employment Tribunal hearings	0	1	1
Enforcement Notice upheld	0	1	1
Value of arrears in cases where Enforcement Notice has been served	£4694.36	6,882.41	18409.10

At 31 March 2002, there were 53 open cases. Of these, 22 were with an AWI for investigation. The remainder were being dealt with by the AWT.

Of the three cases in which the employer appealed against the Enforcement Notice:

Two appeals were withdrawn by the employer and settled out of the Employment Tribunal;

The third case went to a tribunal hearing and the Enforcement Notice was upheld.

There were two cases that resulted in debt recovery action:

In one case an Enforcement Notice was issued and the employer had 28 days in which to pay the arrears owed or to appeal against the Notice. No payment was made or appeal lodged with the Employment Tribunal. Further follow up enquiries revealed that the employer had been declared bankrupt. On the advice given by the Official Receiver, payment for the arrears owed was successfully sought through the Redundancy Payments Office;

The other case went to an Employment Tribunal and the Enforcement Notice was upheld (as mentioned on previous page). However, the employer refused to pay the arrears owed. This resulted in DEFRA initiating County Court action to recover the arrears owed.

Scotland

The Agricultural Wages (Scotland) Act 1949 as amended requires Scottish Ministers to ensure compliance with the terms of the Agricultural Wages (Scotland) Orders (made by the Scottish Agricultural Wages Board) and to investigate complaints. This enforcement work is undertaken by the Scottish Executive Environment and Rural Affairs Department (SEERAD) with five Agricultural Wages Inspectors carrying out around 100 farm inspections each year and investigating complaints as necessary. The majority of investigations show a very high degree of compliance with statutory minimum hourly rates of pay, but problems are more likely to arise with respect to overtime rates, holiday entitlement and sick pay. The industry generally remains reluctant to adopt the use of time-sheets despite these being mandatory.

Between April 2001 and March 2002 a total amount of some £10,500 of arrears of pay and allowances was recovered by SEERAD on behalf of agricultural workers in Scotland.

Northern Ireland

The Department of Agriculture and Rural Development operated a similar Helpline to that of DEFRA and dealt with 220 enquiries up to March 2002. While several cases required on farm inspections and some negotiation they were settled before enforcement action was required.