

The Government's evidence to the Low Pay Commission on the advantages and disadvantages of a minimum wage for 16 and 17 year olds

Executive Summary

- (i) The Government introduced the National Minimum Wage to end exploitation through low wages and as part of its policies to make work pay. It would be wrong to allow 16 and 17 year olds in employment, the youngest workers, to be exploited through low wages.
- (ii) However, for the vast majority of 16 and 17 year olds full-time employment without any training content is a second best option to an appropriate course of education or training. Therefore were a minimum wage rate introduced for 16-17 year olds, it should be structured in such a way and set at a level which does not harm their opportunities and incentives to remain in education or take up a training course.
- (iii) The Government has introduced a range of policies to encourage 16 and 17 year olds to participate in education or training. In particular Education Maintenance Allowances have been shown to be effective in raising participation in education. While these policies should help to reduce the risk that a minimum wage rate might encourage 16 and 17 year olds to enter employment where their long-term prospects would be improved by education or training, the rate and structure of any minimum wage for 16 and 17 year olds would be important factors. 16 and 17 year olds in training are typically paid well below the rate of employees of the same age. Any minimum wage rate for this age group will need to reflect this difference, to avoid jeopardising training opportunities.
- (iv) Even with these policies in place some 16 and 17 year olds will choose to enter full-time employment. The appropriate level of any minimum wage rate for 16 and 17 year olds should therefore also have regard to the potential impact on their employment prospects.
- (v) The labour market characteristics of 16 and 17 year olds are sharply different from those of older age groups. 16 and 17 year olds' labour market performance indicates that they may be more vulnerable to the disemployment effects of a minimum wage if it were set at an inappropriate rate. In addition because of the quality and quantity of available data, it is more difficult to be confident about the appropriate level of minimum wage for this age group. These factors suggest there is a strong case for a cautious level if a minimum wage is introduced for 16 and 17 year olds.

Contents

Introduction

Section 1 the context of a minimum wage rate for 16-17s

- The population of 16-17 year olds
- The Government's objectives for 16-19 year olds
- Young people not in education, employment or training (the 'NEET' group)

Section 2 participation in education and training post-16

- The Government's review of financial support for 16-19 year olds
- Influences on young people's decisions to participate in education and training post-16
- The Government's strategy to raise post-16 participation

Section 3 the labour market position of 16-17 year olds and their wage distribution

- The labour market position of 16-17 year olds
- The wage distribution for 16-17 year old employees
- 16 and 17 year old trainees' pay
- The role and structure of a minimum wage rate for 16-17s

Annexes

- **Annex 1: Charts**
- **Annex 2: 16 and 17 year olds' pay distributions**
- **Annex 3: ONS central estimates of pay distributions**
- **Annex 4: Surveys of trainees' pay**
- **Annex 5: Estimates of low pay in the Youth Cohort Survey and the Labour Force Survey**
- **Annex 6: Breakdown of trainees by training programme and age**

Introduction

1. In March 2003 the Government accepted the recommendations set out in the Low Pay Commission's fourth report¹. The LPC recommended that it should "*consider in detail the introduction of a minimum wage rate for 16-17 year olds and to report by February 2004 so that a rate could be introduced by October 2004*"².
2. In June the Government set out a remit for the Commission to report by the end of February 2004 on two issues:

"consider whether the October 2004 upratings of the adult and development rates recommended in their fourth Report remain appropriate in the light of economic circumstances, and if not make any recommendations for change";

and

*"consider the possible advantages and disadvantages of a minimum wage rate for 16 to 17 year olds. The Commission should focus on the operation of the youth labour market and work closely with the wider Government review which is looking at the financial incentives for young people to participate in education and training and the system of financial support for young people"*³.

3. In its first report the Low Pay Commission opposed a minimum wage rate for 16-17 year olds and at that time the Government accepted this view. In its first report the Commission stated:

"if society wants 16 and 17 year olds to pursue their education and training, and we strongly believe that it should, then it is unreasonable to expect employers necessarily to pay them the same rate as they pay their experienced workers....Equally we do not want to encourage these young people to enter the labour market fully too early by establishing their legal entitlement to a certain level of wage. Hence we recommend that all those aged 16 and 17 should be exempt from the National Minimum Wage"⁴.

4. The Government's focus on ensuring that young people pursue an appropriate course of education or training, and on activating vulnerable young people is unchanged and it has introduced targets for the Department for Education and Skills to encourage greater participation in post-16 education, and to raise participation in higher education and in training.

¹ With the exception of the recommendation that 21 year olds should be included in the adult rate.

² Low Pay Commission Fourth Report, 2003, p144

³ Hansard, 16 July 2003

⁴ Low Pay Commission First Report, 1998, p68

5. Nevertheless 16 and 17 year olds in employment, the youngest workers, should not be exploited through low wages and if there is evidence of such exploitation there is a case that they should have similar statutory protection that older workers enjoy against exploitatively low wages, as long as this does not harm their opportunities and incentives to remain in education or take up a training course, or their employment prospects.
6. The basis for reconsidering whether a minimum wage rate for 16 and 17 year olds is appropriate has three elements. Firstly, since the introduction of the National Minimum Wage in 1999 the evidence shows that the existing minimum wage rates have not had significant impacts on employment, or on business costs or inflation at the aggregate level. This supports the view that a minimum wage rate set at an appropriate level could protect the youngest workers from exploitation without damaging their employment prospects.
7. Secondly, along with its targets to encourage participation in post-16 education the Government has introduced Education Maintenance Allowances (EMAs) to encourage young people to stay on in school. The comprehensive evaluation of the EMA pilots indicates that they will have a substantial impact on participation when they are introduced in September 2004. Along with increases in financial support paid to families with young people staying on in school post-16 EMAs should incentivise young people to stay on and provide the financial support for them to do so.
8. Thirdly, in addition to EMAs the Government has put in place a framework of support which will help more vulnerable young people in particular to participate in education or training. The Entry 2 Employment programme will provide a basic level of training and function as a gateway into more advanced training, for example through Modern Apprenticeships, and to further education. The Connexions Service delivers an advice service to young people aged 13-19 with more intensive support offered to those young people at risk of poor outcomes. The Government is also investing in training for young people choosing not to stay in school post 16 or move on to higher education. For example, the Modern Apprenticeship framework has resulted in an expansion of over 100,000 training places for young people in England since 1997.
9. The evidence sets out the policy context of a minimum wage rate for 16-17 year olds, the role it would play, and the labour market position of this age group.

Section 1 the context of a minimum wage rate for 16-17s

Population of 16-17s

1. This section sets out what activities 16 and 17 year olds are undertaking across the UK as a whole, how these vary by country and English region, by gender and by the young person's living status.
2. According to the Labour Force Survey (LFS) there were around 1.5 million 16-17 year olds in the UK in 2002/03. Table 1 shows the split of 16 and 17 year olds according to whether they are in education and whether they are employed, using data from the LFS. The table indicates that 72% of 16 and 17 year olds across the UK are in Full Time Education (FTE). Of those not in FTE only 58% were in employment.

Table 1
Activities of 16-17 year olds in the UK

	In Full Time Education	Not in Full Time Education	Total
Employed	419,000	240,000	659,000
Unemployed	80,000	94,000	174,000
Inactive	588,000	79,000	668,000
Total	1,087,000	413,000	1,500,000

Source: Autumn 2002 to Summer 2003 Labour Force Surveys

3. Data from the Youth Cohort Survey⁵ shows that the vast majority (just over 95%) of 16 and 17 year olds are living with a parent; those not in full-time education have a higher probability of living independently.
4. The activities of 16 and 17 year olds vary significantly across the UK, and across the English regions as shown in tables 2 and 3. 16 year olds living in the North of England are significantly more likely to be participating in Government Supported Training and less likely to be in Full-Time Education than those in the South.

⁵ Data for 16 year olds is from Youth Cohort Survey in spring 2002. Data for 17 year olds is from Youth Cohort Survey in spring 2001. Sample sizes were 16,267 individuals for 16 year olds and 10,023 for 17 year olds. Data in the Youth Cohort Survey is conducted in the spring and the ages of groups within the survey are defined by individuals' ages in the previous summer.

Table 2
Activities of 16 and 17 year olds across the UK

Percentage	Northern Ireland	Scotland	England & Wales
School/mainstream FE	64.7	55.4	52.3
Vocational Training	16.9		26.1
Employed	13.2		14.5
Unemployed	2.9		4.3
Other unknown	2.3		2.7

Sources: Youth Cohort Survey, Northern Ireland census 2001, Scottish Executive Education Department News Release, 13 May 2003

Table 3
Participation in education and training of 16 year olds by region in England, 2000

Government Office region	Percentage of age group in FTE	Percentage of age group in GST
North East	65	15
North West	68	11
Yorkshire and the Humber	67	11
East Midlands	69	9
West Midlands	69	10
East of England	75	7
London	77	4
South East	74	6
South West	73	7

Source: Department for Education and Skills, December 2002

- There are also significant differences in 16 and 17 year olds' main activities according to their gender. In England 75% of 16 year old women were in FTE in 2001 but only 67% of men of the same age. Among 17 year olds, 55% of men were in FTE and 62% of women.
- Chart 1.1 illustrates differences in household income between households containing at least one 16 or 17 year old in FTE compared with those households where there is at least one 16 or 17 year old not in FTE ⁶. Overall households with a 16 or 17 year old not in FTE are more likely to be have a lower income. Partly this relates to the fact that 16 and 17 year olds not in FTE are less likely to be part of their parents' household.

⁶ The data are from the Family Resources Surveys 2000/01 and 2001/02, and refer to Great Britain. The definition of income used ('equivalised') takes account of the size of the household, and does not reflect housing costs – but it does include Housing Benefit and Council Tax Benefit. Income data are expressed in 2003/04 prices.

7. The Family Resources Survey reports a small number of cases where a 16 or 17 year old is the head of the household. These are too few to draw robust conclusions about the population as a whole but unsurprisingly they suggest that most of these households are in the lower part of the income distribution (with equivalised incomes of up to £250 per week before housing costs).

The Government's objectives for 16-19 year olds

8. The Government's overarching objectives for 16-17 year olds are to increase the proportion achieving National Vocational Qualification (NVQ) level 2 and progressing to NVQ level 3 by raising their participation in an appropriate course of education or training. This includes activating vulnerable young people by ensuring they receive the financial support and the services they need to improve their opportunities through education or training.
9. The objectives on increasing participation in education and training for young people generally are expressed in several key Department for Education and Skills Public Service Agreement (PSA) targets for 2004/05 and in longer-term targets. These targets and recent progress against them are set out below.
10. The problems of the most vulnerable young people were analysed in the 1999 Social Exclusion Report (SEU), 'Bridging the Gap'. These young people who are not in education, employment or training are referred to as the 'NEET' group. Policies introduced since the report to address their needs are set out in the next section of the evidence.
11. Because of the links to policies on education and training and the Government's concerns about the NEET group, when the Government accepted the Low Pay Commission's request to investigate the 'advantages and disadvantages of a national minimum wage for 16 and 17 year olds', in March 2003, it asked that the LPC's work be embedded in a wider review of financial support for 16-19 year olds. The review's remit and its emerging findings are also set out in this section of the evidence.
12. In England the Government's aspirations for young people aged 16 and 17 are articulated through DfES' Public Service Agreements. The DfES' key targets for this age group are:

PSA targets (2004/05)

- *Raise standards in schools and colleges so that the proportion of 19 year olds who achieve qualifications equivalent to 5 GCSEs at grades A* to C rises by 3 percentage points between 2002 and 2004, with a further increase of 3 percentage points by 2006.*

- *By 2004, at least 28% of young people to start a Modern Apprenticeship by age 22.*

13. Attainment of 19 year olds at NVQ level 2 increased steadily up to 1999. As Chart 1.2 shows, the series has leveled off in the period 1999 to 2002.

14. The baseline figure (2002) for the Modern Apprenticeship target is 22.8% of young people having started a Modern Apprenticeship by age 22. Out-turn data in January 2003 showed that starts had increased to 23.8% of young people. Projections by the LSC estimate that the target will be met in 2004.

2010 targets

- *By 2010, 90% of young people by age 22 will have participated in a full-time programme fitting them for entry into higher education or skilled employment. (The methodology underpinning this target is still to be finalised).*
- *By 2010, increase participation in Higher Education towards 50% of those aged 18 to 30. Also, make significant progress year on year towards fair access, and bear down on rates of non-completion.*

15. Progress towards achieving the higher education participation target is measured by the Initial Entry Rate (IER). The latest estimate of the IER for 2001/2 is 43%.

Devolved Administrations

16. The Scottish Executive has similar aspirations with targets to:

- *Increase support for 16-19 year olds from low income families to stay on in school and/or college, thereby raising the participation and retention rates of the group by at least 5% by 2007/08*
- *Reduce the proportion of 16-19 year olds not in education, training and employment by 2006*
- *Significantly improve the skill base of Scotland to be better prepared to meet the demands of the knowledge economy. Increase the apprenticeship programme to 30,000 places.*

Young people not in education, employment or training, the 'NEET' group

17. Table 4 shows the proportion of 16-18 year olds by their activity status between 1999 and 2001. The proportion of young people aged 16-19 not in education, employment or training has remained roughly constant since 1994. Prior to that the size of the non-participant group had fluctuated along with the economy's cycle. Worryingly, since the early 1990s the proportion of young people not in education, employment or training has not fallen despite the significant increase in the aggregate employment rate since that time⁷ (Labour Force Survey data show that from 1993 to 2003 the employment rate for adults aged 22 and over rose 5 percentage points to 79.1%).

Table 4
Participation in education and training of 16-18 year olds, by activity
England 1999-2001

Activity	1999	2000	2001
Full time education	56%	56%	56%
of which employed	26%	26%	26%
In training or other education	20%	20%	20%
In employment with no education or training	16%	15%	15%
NEET*	9%	9%	9%

*Young people not in education, training or employment
 Source: DfES, 2003

18. The 1999 SEU report 'Bridging the Gap' set out to unpick the underlying causes of non-participation for the 9% of the age group or 170,000 young people aged 16-19 who are not in education, employment or training.

19. Bridging the Gap found strong arguments in favour of a 'fundamental reappraisal' of financial support provision for 16-18 year olds. The availability of financial support for young people is 'extremely complex' and generates 'anomalies and perverse effects'. There are 'many different sources of support, administered by different organisations

⁷ P. Robinson 'Education, Training and the Youth Labour Market' in P. Gregg and J. Wadsworth (eds) 'The State of Working Britain', Manchester University Press, 1999.

according to different rules'. Consultation responses suggested that the system means that young people 'often struggle to support themselves in education and training' and that it 'confuses the choices they make'.

20. Of the 9 per cent of 16-19 year olds in the NEET group approximately 60% are unemployed and the remainder inactive. However this snapshot disguises the flow of young people into and out of the group. About 20% of young people report a period of non-participation between the ages of 16 and 18 – half of these for a duration of less than 3 months⁸. However 40% of those who were NEET at 16 were still NEET at age 18.
21. The NEETs are a group of young people with a complex range of needs. Inactivity is often caused by caring responsibilities or parenthood. Educational achievement at 16 and non-participation are very closely correlated, with about 50 per cent of NEETs reporting either no qualifications or between 1-4 GCSEs at grades D-G, equivalent to NVQ level 1.
22. A higher proportion of white children leave education at 16 than those from other ethnic groups. However, they are also more likely to move into training or employment, with the result that Black, Pakistani and Bangladeshi 16-year olds are most likely to be NEET; by contrast Indian and other Asian 16 year olds are less likely to be in the NEET category than their White contemporaries. Similarly, men are more likely to leave education than women at 16, but this is offset by greater numbers of men entering training or employment, leaving the proportions in the NEET category broadly similar.

⁸ The percentage of young people who are NEET is lowest in late Autumn as school leavers are placed into work and learning options. The proportion rises gradually after Christmas as young people drop out of these options and peaks in the summer.

Section 2 participation in education and training post-16

The Government's review of financial support for 16-19 year olds

1. Budget 2003 announced that the Government would establish a cross-government group to examine the overall system of financial support for 16 to 19 year olds. It stated that the review would report in spring 2004 and would examine:
 - *the financial incentives for young people to participate in education and training and the interaction between this support and any new minimum wage for 16 and 17 year olds;*
 - *the financial support for young people and their parents or carers, including those who are living independently and those in very low paid employment; and*
 - *how the system of financial incentives and support could be rationalised, given the variety of channels through which it is currently delivered.*
2. The Paymaster General is leading work with children's groups, relevant Government departments, the Local Government Association, the Low Pay Commission and in consultation with young people and their parents. The review is looking at ways of improving the system of financial support in the short term to remove the worst anomalies and improve the level of support available for young people. The review builds on the analysis and research of the Department for Education and Skills/Department for Work and Pensions-led review group which had been meeting since August 2002.
3. The review's analysis so far has brought to light three areas of concern:
 - equity and incentives: the differential in financial support for those in education and unwaged training has increased in recent years;
 - complexity: the existing financial support system for 16-19 year olds is widely seen as difficult to navigate both for young people, particularly the most vulnerable, and their advisers;
 - dependency: the definition of a child and the scope of the associated notion of dependency.
4. The review provides the Government with an opportunity to assess the likely impact of a minimum wage for 16-17 year olds on incentives to participate in education and training.
5. This section discusses the factors that influence young people's decisions to participate in education or in training and the Government's policies to encourage them to participate and achieve.

Influences on young people's decision to participate in education or training post 16

6. Returns to A levels have remained high over the period since 1979 despite significant increases in enrolment rates in full-time education. The A level route continues to offer the best long-term rewards with academic internal rates of return ranging from 14-2%. As well as providing high returns themselves, A levels are still the primary route to Higher Education with about 92% of young people with good A levels continuing to university⁹. Training also delivers positive returns of 7-9% for a NVQ level 3 trade apprenticeship. As a result of these returns, in theory, all young people have an incentive to participate in some form of learning after the age of 16.
7. In practice many young people choose not to continue in learning. Broadly the factors that underlie the decision to remain in education are:
 - prior attainment
 - social class and family income
 - parental education

Although there is a strong correlation between social class, income and parental education, there is evidence that they are independently linked with children's educational achievement and hence with post-compulsory participation.

8. The introduction of GCSEs increased post-16 participation rates by raising attainment. GCSEs increased the proportion of the cohort achieving higher grades at 16 with the propensity to stay in education associated with those grades remaining constant. In 1986 only 24% of young people achieved higher grade O levels. The provisional results for 2002/3 show 52.6% of pupils gaining five or more grades A*-C 90% of young people getting 5 GCSEs A*-C continue in further education.
9. Analysis from the National Child Development Survey links parental educational attainment to propensity to stay on after 16. Gregg and Machin¹⁰ found that young people whose parents had left education before the age of 15 were less likely to stay on after the age of 16 themselves. Low income was also shown to be a significant influence on a young person's propensity to remain in education or training.

⁹ The proportion of students with good A levels going on to Higher Education (HE) depends in part what is meant by "good A levels". Using the measure of A=10 points, B=8, C=6, for those with 26+ points (A,B,B), 95% go on to HE and for those with 18-24 points (C,C,C) to (B,B,B) 90% go on to HE.

¹⁰ P. Gregg and S. Machin (1998) 'Child Development and Success or Failure in the Youth Labour Market' Discussion Paper No. 397, Centre for Economic Performance, LSE, London

Other factors such as parental unemployment and lone parenthood were not shown to be significant. Post-16 participation rates also vary by gender, region and ethnicity.

10. Post-16 participation, particularly among young men, is affected by unemployment levels. Clark¹¹ finds that a 10% increase in youth (18-20) unemployment leads to a 2.4% increase in male participation and a 0.45% increase in female participation. For young men the effect of falling total unemployment in 1996-2001 more than offset the effect of rising attainment on the participation rate. It is the local unemployment level which has an impact on the participation decision, and so local participation rates may move differently from national trends.
11. Financial support and incentives have a complex relationship with post-16 participation. Young people are well aware of the returns to qualifications. That is why many of them are willing to participate in education and training that pays them much less than the full time wage they could command in the short term. Evaluation of Modern Apprenticeships¹² which examines trainees' attitudes to pay supports the view that trainees are willing to be paid less in training (Payne, 2001; Ashworth et al, 2003) on the assumption that their rate of pay will increase over time. Payne¹³ also finds no evidence to suggest that lower pay in Government Supported Training was encouraging people to leave for higher wages in full time jobs with no training. Education Maintenance Allowance evidence on the other hand demonstrates that financial barriers can prevent a young person participating in education.

The Government's strategy to raise post-16 participation

12. The Government's Strategy to raise post-16 participation has three elements:
 - (i) Reforming the curriculum to provide more coherence, choice and flexibility
 - (ii) Improving advice guidance and support, including financial support
 - (iii) Raising the quality and profile of the vocational route
13. The reforms described in this section are either very recent (Connexions and Entry to Employment) or are yet to be introduced nationwide (Education Maintenance Allowances will be rolled out in September 2004) and have therefore not yet had an impact on the number of young people in the NEET category.

¹¹ D. Clark (2002) 'Participation in Post-Compulsory Education in England: What Explains the Boom and Bust? Discussion Paper 024, Centre for the Economics of Education

¹² Modern Apprenticeships study, Evaluation Research Strategies Ltd, Local LSC, Draft Report June 2003.

¹³ J. Payne 2001 Work based training for young people: data from the England and Wales YCS DfES RB276

14. The tax and benefit system is UK wide so young people across the UK are supported by the same financial support system. Education Maintenance Allowances will be introduced across the UK at the same rate from September 2004. Modern Apprenticeships provide a UK wide training framework underpinned by a Minimum Training Allowance. The MTA framework is common across the UK but the level of guaranteed support varies.
15. By contrast, education is a devolved matter, but there is nevertheless consensus about the broad direction of travel of post-16 policy across the UK. Scotland is looking to introduce more flexibility into the curriculum. Northern Ireland are reviewing the curriculum for 14-19 year olds. Careers Scotland provides an information advice and guidance service. Get Ready for Work is the Scottish Entry to Employment programme.

(i) Reforming the curriculum

16. The current breakpoint provided by GCSEs at 16 is thought to be a contributory factor to the low post-16 participation rate. In England the 14-19 reforms aim to reduce drop out and disaffection pre-16 by providing a more tailored curriculum and to provide continuity and coherence post-16. The Green Paper on the 14-19 phase was published in February 2002. In January 2003 a next steps document, *Opportunity and Excellence*, was published setting out a new core curriculum for 14-16s, with more flexibility for institutions to tailor programmes to individual pupils, taking full effect from 2004/05 onwards. It also led to the formation of the Working Group on 14-19 Reform, chaired by Mike Tomlinson.
17. Tomlinson's initial proposals¹⁴ represent a major departure from the existing curriculum and qualification structure. Currently both 14-16 and 16-19 phases are focused on attaining a number of free-standing qualifications e.g. sets of GCSEs or a single NVQ or A level. This system does not accredit achievement in other areas, such as volunteering, and employers and Higher Education institutions look for students to focus their attention to maximise their grades in particular subjects, rather than achieve success across a balanced set of studies.
18. There is a growing consensus on the value of an overarching diploma covering a range of studies, as in the majority of other Western European countries. A diploma encompasses a whole programme within a single qualification, for example a level 2 diploma would be made up of an agreed programme of study combining core and specialist subjects. With more flexibility to accumulate components of the qualification over time, students would seek to reach equivalent to

¹⁴ 14-19 Working Group, summaries of progress at:
http://www.14-reform.gov.uk/reports_consultation/index.cfm

NVQ level 3 by 19, but some would reach NVQ level 2 instead. This shift towards a mixed economy of academic and vocational study moves away from the traditional definition of the child in academic study to age 19.

19. Tomlinson's working group will report back to the Government with initial recommendations in January 2004, and final recommendations for July 2004. Any proposed curriculum reform would be introduced from 2008 onwards.

(ii) Improving guidance and support

20. The second strand to the Government's strategy for improving participation in education and training post-16 consists in the roll out of improved advice services for young people, through Connexions, and increased financial support for apprentices staying on in education, through Education Maintenance Allowances.

Connexions

21. Connexions is an information, advice and guidance service for all young people age 13-19. The service is universal in scope but more intensive support is offered to those young people at risk of poor outcomes. Intensive support is delivered through a personal adviser service. The focus of the Connexions Service is preventing young people disengaging from education and reintegrating disengaged young people into education, training or employment. The Connexions Service has set each Connexions partnership a target to reduce the number young people in the NEET category locally by 10% between November 2002 and November 2004.

Education Maintenance Allowances

22. Education Maintenance Allowances (EMAs) were first introduced as a pilot in 15 Local Education Authorities (LEAs) in September 1999. EMAs pay a weekly amount to a young person choosing to participate in non-advanced Full-Time Education beyond the compulsory school-leaving age. They also pay retention bonuses to those staying on in non-advanced FTE for a second year and achievement bonuses to young people achieving 'A' level qualifications at a certain standard. The EMA was contingent on parental income with the maximum amount payable to those with parental income below £13,000 and lower rates payable for those with parental income up to £30,000 or £20,000 in London.
23. EMAs are designed to tackle the financial barriers to participation in education that young people from low-income families can face. They are paid on top of financial support to the parents of a young person staying on in school beyond the compulsory school-leaving age. The

impact of EMA on the maximum financial support available to a family (both the parent(s) and the young person) is shown in Chart 2.1.

24. EMAs were rolled out to a third of all LEAs during the academic year 2000/01. Some of the areas piloted additional flexibilities for vulnerable young people, including schemes focussing on childcare and the costs of transport. These pilots of EMAs have been the subject of a comprehensive evaluation strategy (undertaken by a consortium led by the Centre for Research in Social Policy at Loughborough University). The evaluation is longitudinal and follows two cohorts of young people for a period of four years. Surveys began shortly after the scheme started in September 1999.

25. Four variants were introduced across a mixture of deprived rural and urban LEAs. The variations in the model included the weekly amount of EMA available, to whom it is paid i.e. to the young person or their parents, the amount which is paid as a retention bonus and the amount which is paid as an achievement bonus. The minimum EMA payment in the pilot was £5. The consortium collected qualitative and quantitative data from both the pilot areas and matched control areas to investigate the impact of the different variants of EMA.

26. Key findings from the EMA pilot are:

- EMA raised the participation of eligible young people in further education by 5.9 percentage points;
- Just under 60% of the young people moving into further education had left work or training;
- EMAs were particularly effective at activating the NEET group: just over 40% of the increase in participation in FTE was due to young people previously in the NEET group even though the group is about 20% of the 16-18 age group not already in education;
- The largest participation effect was on urban males;
- EMAs were more effective if paid to the young person rather than to the parents; and
- EMA is more effective when the maximum amount is paid but the same participation effect resulted from payments of £30 or £40 a week.

27. On the basis of the evaluation of the EMA pilots, a national EMA model will be introduced in the UK in September 2004. National roll out is expected to increase participation in post compulsory education in England overall by 3 percentage points. The key features of the proposed scheme are:

- weekly payment bands of £30, £20 and £10 per week. The £30 entitlement would be available to families with household income of up to £19,000; £20 to families in the £19,000 to £23,000 band; and £10 for household income up to £30,000;

- bonus payments of £100 in January and July of each academic year, with an additional bonus payment in September/October for those who have returned to learning for a second or subsequent year;
- a three-year period of entitlement for all eligible students;
- EMA will be paid directly into the student's bank account rather than to the parent;
- EMA eligibility will be assessed on the basis of family income, as defined by the Inland Revenue for tax credit purposes.

28. This model of EMA is being adopted across the UK with roll out from September 2004.

(iii) Raising the quality and profile of the vocational route

Entry 2 Employment

29. The final element in the strategy to increase participation post-16 centers on improving the quality of training. The key elements are raising the quality of Modern Apprenticeships (MAs), increasing retention rates on MAs and providing a stepping stone to the NVQ level 2 and 3 qualifications offered through MAs and in other forms of training, through the launch of Entry 2 Employment.

30. In September 2001, Sir John Cassels' Modern Apprenticeship Advisory Committee proposed the establishment of pre-employment provision for those young people not immediately able to enter a Modern Apprenticeship or other employment. In July 2002 DfES announced that a pathfinder Entry to Employment (E2E) programme would be introduced to help develop more effective work-based learning, enabling more young people to progress to higher learning opportunities. Eleven pathfinders, which encompass local Learning and Skills Council (LSC) and Connexions Service partnerships, ran across all Government Office regions and E2E was launched throughout England in August 2003.

31. E2E supports learners in the achievement of NVQ level 1 qualifications (or other equivalent achievement) as a building block towards attainment at level 2 and progression to MAs or other appropriate provision. All NVQ level 1 training in England is now within E2E and it is quite different from the traditional conception of training: participants are not based with an employer and much of the learning is classroom based. On average a participant will spend 16-22 weeks on an E2E programme. E2E also offers support to learners in the achievement of basic skills/key skills.

32. The E2E framework, from which individual programmes will emerge, includes: formal learning opportunities to achieve accredited qualifications including basic or key skills; practical and vocational

learning; employability skills and career management; informal and personal development activities and work experience, with an emphasis on young people playing a full part in planning and reviewing their learning.

33. E2E provides support to young people who have been disaffected for example as a result of school exclusion or low levels of school achievement or disadvantaged by circumstances or characteristics e.g. homelessness, offending behaviour, health issues, care history or family difficulties.

Modern Apprenticeships

34. Modern Apprenticeships (MAs) are offered at two levels, the Foundation Modern Apprenticeship (FMA) at level 2 and the Advanced Modern Apprenticeship (AMA) at level 3. Young people can participate on a MA from age 16, and the Learning and Skills Council is currently raising the upper age limit of 25. In England 71% of 16 and 17 year olds undertaking a Modern Apprenticeship are on an FMA.
35. In England there are currently 235,000 16 to 21 year olds participating in Modern Apprenticeships and current plans envisage 320,000 young people participating in Modern Apprenticeships by 2006. A Modern Apprenticeship taskforce was established in February 2003 to increase further the number of apprenticeship opportunities available and engage employers in their design and delivery. In Scotland Modern Apprenticeships provide training up to Scottish Vocational Qualification level 3. At March 2002 there were 36,000 people on Skillseekers and Modern Apprenticeships in Scotland (around 13% of the 16-18 year-old population).
36. Before Modern Apprenticeships were introduced, apprenticeships were concentrated in traditional sectors. These sectors still dominate MAs (25% in engineering, 12% in construction) but uptake is growing in non-traditional service sectors (13% in business administration and 12% in health and social care). Uptake of Modern Apprenticeships is also greater among larger employers. A 2001 survey found that 9% of employers with five or more employees who recruited 16-24 year olds used FMAs, with a further 3% using AMAs. By contrast, around a quarter of those with a workforce of 500 or more employed modern apprentices.
37. Modern Apprenticeships have historically suffered from low success and completion rates. Overall completion rates (the percentage of learners completing the full framework) and success rates (the percentage of learners completing the full framework or just the primary NVQ) are improving. Over the 12 month period to June 2003 success rates improved steadily by 5 percentage points to 40%. However this still leaves 60% of young people who start a Modern Apprenticeship leaving without having achieved the primary NVQ.

38. It is clearly vital that young people choosing to participate in Modern Apprenticeships receive good quality training and that completion rates improve significantly. The Learning and Skills Council has set objectives to increase median success rates on Modern Apprenticeship programmes from 37% in 2001-02 to 50% by July 2004 and 57% by July 2005 with no provider or area of learning less than 40%; and to increase Modern Apprenticeship completion rates so that they are within 15 percentage points of the respective success rate.
39. One key element in achieving these targets is ensuring that young people embarking on a Modern Apprenticeship are adequately prepared for it. To address this the Government is encouraging providers to start learners who have not attained level 2 on an FMA, progressing to AMA. This is being taken forward at a local level through service level agreements with Connexions Services. This is a long-term strategy, which together with the introduction of Entry 2 Employment will improve success rates on both programmes.
40. To raise training quality standards, the LSC has an objective of reducing the proportion of providers that are judged to be inadequate by the Adult Learning Inspectorate from 56% in 2001-02 to 45% by July 2003, to 33% by July 2004 and to 17% by July 2005. To reach these targets the LSC is offering support to training providers to increase the volume and extent of their provision while at the same time improving retention and achievement but also ensuring that the contracts of those providers falling below standard are terminated.

The Minimum Training Allowance

41. The Minimum Training Allowance (MTA) is the rate set by government as the minimum weekly payment to trainees, both waged and non-waged. For employed trainees the MTA acts as a floor for employers' weekly wages for trainees¹⁵. Currently the MTA is £40 per week in England and Northern Ireland (it is £50 and £55 in different parts of Scotland). In England the 47 Local LSCs (LLSCs) have discretion to pay trainees more than the level of MTA set by government. Currently 13 (27% of the total) LLSCs set a rate above the official MTA of £40 per week for young people on the E2E programme and 17 LLSCs (36% of the total) require a higher rate for those on MAs and in NVQ learning. In most cases the higher rate imposed is in the £45-£50 range.

¹⁵ The LSC expects employers to pay the costs of their waged trainees. Training providers only receive funding to pass the MTA on to the employer where the individual does not receive payment from the employer, or where the trainee receives the MTA and a top-up from the employer. Further, a trainee can be employed by the training provider rather than the employer, and receive only the MTA (this is more common where the employer is a small firm, or a self-employed single tradesman). Unwaged trainees will receive the MTA from their training provider, in particular the E2E group will fall into this category.

42. The MTA is not updated in line with prices. In 1998 the rate was £29.50 per week for 16s and £35 per week for 17s. The 16 year old rate was updated to £30 per week in 1997 and both rates were updated to £40 per week in 1999.

Section 3: The labour market position of 16-17 year olds and their wage distribution

The labour market position of 16-17 year olds

1. This section of the evidence begins by setting out the data on 16-17 year olds' labour market characteristics. The pattern of activities of 16 and 17 year olds is very different even from that of 18-21 year olds, because a far larger proportion of the age group is in Full-Time Education. Labour Force Survey data show that 72% of 16-17 year olds were in Full-Time Education, compared with 38% of 18-21 year olds over the 4 quarters from Autumn 2002 to Summer 2003. These data are shown in chart 3.1. As a result the inactivity rate for 16-17s was 44% compared to 30% for 18-21 year olds, as shown in Chart 3.2.
2. Given the very different proportions of each age group engaged in Full Time Education the appropriate way to compare the labour market performance of 16 and 17 year olds with that of older age groups is to focus on individuals not in Full Time Education (FTE). This also has the advantage of focussing attention on the section of the 16-17 year old population which would suffer most from exploitatively low wages, because employed 16-17 year olds in FTE will benefit from government financial support through Child Benefit, Child Tax Credit and EMAs.
3. Charts 3.3 and 3.4 show the employment and unemployment rates of 16-17 year olds, 18-21 year olds and adults aged 22 and over, depending on educational status. They show clearly that the labour market performance of 16-17 year olds who are not in FTE is significantly weaker even than 18-21 year olds not in FTE.
4. 16 and 17 year olds' poor labour market performance with ILO unemployment rates of over 19% for those not in FTE has persisted for at least ten years. By contrast over the same period the unemployment rates of 18-21 year olds and adults aged 22 and over have fallen significantly, as Chart 3.5 shows¹⁶.
5. The labour market data also show that 16 year olds have significantly poorer labour market performance, as measured by the ILO unemployment rate, than 17 year olds. Chart 3.6 shows that 16 year olds' unemployment rate is 11.6 percentage points higher than 17 year olds' for those individuals not in FTE.
6. There are also significant differences in labour market performance between 16 and 17 year old men and women, as shown in Chart 3.7.

¹⁶ Because the Government believes that employment is a second best option for 16 and 17 year olds the New Deal for young people extends only to those aged at least 18; this may explain part of the relative deterioration in their labour market performance compared with that of young people aged 18-21.

The men have higher and apparently more volatile unemployment rates compared with women of the same age.

7. However, the mix of unemployment by time spent unemployed shows that the greater part of unemployment among 16-17 year olds is short-term, i.e. lasts 6 months or less. Chart 3.8 compares the mix of unemployment by duration for 16-17 year olds and 18-24 year olds during two three month periods (March to May 1993 and March to May 2003)¹⁷. In the earlier period 16 and 17 year olds' performance was far better than that of 18-24 year olds with only 13.0% of unemployment composed of spells of 12 months or more compared with 34.0% for 18-24 year olds. Further, over the past ten years the proportion of unemployment for 16-17 year olds made up of spells over twelve months has fallen further, to 8.1%. But the performance of 18-24 year olds on this measure has improved far more quickly: only 12.3% of unemployment was made up of spells of 12 months or longer in the period March to May 2003. This mainly reflects the impact of the New Deal on longer-term unemployment for the 18-24 year old age group.

8. Because of limitations imposed by sample sizes it is difficult to provide a comprehensive sectoral analysis of employed 16 and 17 year olds. However, table 5 shows that there is a high degree of concentration of 16 and 17 year old employees in certain industries. Just under two thirds of 16 and 17 year olds are employed either in the wholesale, retail and motor trade or in hotels and restaurants. (The data in this table refer to all 16 and 17 year olds, irrespective of educational status).

Table 5
Number and proportion of 16-17 year old employees by industry; 2002/03

	Number	Per cent
Agriculture, hunting & forestry	*	*
Mining & quarrying	*	*
Manufacturing	41,000	6.6
Electricity, gas & water supply	*	*
Construction	30,000	4.8
Wholesale, retail & motor trade	275,000	44.7
Hotels & restaurants	136,000	22.1
Transport, storage & communication	15,000	2.5
Financial intermediation	*	*
Real estate, renting & business activity	19,000	3.1
Public admin & defence	6,000	1.0
Education	6,000	1.0
Health and social work	19,000	3.1
Other community, social and personal	56,000	9.1
Private households with employed persons	*	*
All industries	615,000	100.0

Source: Autumn 2002 – Summer 2003 Labour Force Surveys

* Sample size too small for reliable estimate

¹⁷ These data cover all individuals in the age group – i.e. both those in Full-Time education and those who are not. They are also in line with the interim population estimates based on the 2001 census.

9. In summary the labour market performance of 16-17 year olds gives cause to set any minimum wage rate for this age group cautiously. Unemployment rates for those not in Full-Time Education are significantly higher than those for older age groups, and have been for the past ten years. Further, the performance of certain subsets of the group such as 16 year olds and men is markedly worse than the performance of the group as a whole.

The wage distribution for 16-17 year old employees

10. Annex 2 sets out pay distributions for all 16-17 year olds, using ONS central estimates. Chart 3.9 shows the central estimate of the pay distribution of jobs filled by 16 and 17 year olds, for Spring 2003. It covers 16-17 employees whether they are in Full-Time Education or not and also includes apprentices.
11. Earnings data for 16-17 year olds from the Labour Force Survey and New Earnings Survey should be treated with caution given small sample sizes and other methodological weaknesses. The Labour Force Survey has only a very small sample for this age group and has a large proportion of proxy responses compared to older age groups. The New Earnings Survey being an employers' survey suffers from under-coverage as people who earn below the PAYE threshold will not be surveyed – this problem is greater for 16-17 year olds who are more likely to fall into this category than older workers.
12. The chart shows that in certain parts of the pay distribution the estimated proportion of jobs paying below a given wage is very sensitive to changes in the wage level. For example, in Spring 2003 10.1% of jobs filled by 16-17 year olds paid below £3.10 per hour, 50% more than number paying below £2.90 per hour. Further, a large number of 16-17 year olds are paid at around the minimum wage rate for 18-21 year olds, creating a similar effect further up the pay distribution¹⁸.
13. Part of the reason for the sensitivity of the estimated proportion of jobs paying below certain wage levels is the small sample sizes for 16 and 17 year olds' wages in the LFS and NES. These entail greater uncertainty surrounding the estimates of the number of jobs filled by 16 and 17 year olds which pay below a certain wage rate. Analysis of the Spring 2003 central estimate data suggests that the 95% confidence interval around the estimate of coverage of a minimum wage rate for 16-17 year olds is between +/- 1.5 and +/- 2.1 percentage points, depending on the level of the minimum wage rate.

The Youth Cohort Survey

¹⁸ In Spring 2003 the number of jobs paying below £3.60 was 24.6%, over 60% more than the number paying below £3.40 per hour.

14. The data on the wage distribution for jobs filled by 16 and 17 year olds based on the New Earnings Survey and the Labour Force Survey differs from with the wage distribution for this age group implied by data from the Youth Cohort Survey (YCS). The estimate of the low paid from the LFS using the direct hourly rate question suggests that 7.5 per cent of jobs filled by those aged 16-17 were paid below £2.90 per hour in Spring 2002 whilst the YCS suggests that 17 per cent of 16-17 year olds were paid up to this amount. Chart 3.10 contrasts the wage distributions based on the LFS hourly rate estimates for Spring 2002 and the YCS data, also from Spring 2002. For rates of hourly pay up to £4.50 the proportions of jobs covered differ, with the greatest discrepancies at the lower wage rates.
15. The main reason for the discrepancy is likely to be that the YCS uses a derived hourly pay variable whilst the ONS estimate from the LFS uses a direct hourly rate question, and imputes values for those people who do not respond as having an hourly rate. (This difference is discussed in more detail in Annex 5). The ONS methodology is now the accepted standard for estimating wage distributions to derive the implied coverage rate of a minimum wage for a give section of the workforce. It would therefore be appropriate to use the ONS data to set any minimum wage rate for 16 and 17 year olds. However, because of its far greater sample size and the detail it provides on wages of 16 and 17 year olds in training, the Youth Cohort Survey data are invaluable in assessing the level of trainees' pay, discussed in the next section.
16. The New Earnings Survey provides some information on 16 and 17 year olds pay by sector. Chart 3.11 shows wages at the 25th percentile for 16 and 17 year olds in four low paying sectors. The estimate for the hairdressing sector is much lower than in the hospitality, retail and cleaning and security sectors which all have wages at the 25th percentile close to the level for 16 and 17 year old employees as a whole.

16 and 17 year old trainees' pay

17. Because of the small sample sizes and the quality of the data on 16 and 17 year olds' pay in the Labour Force Survey it cannot provide reliable data on the wage distribution for trainees¹⁹. We have therefore used the Youth Cohort Survey to estimate the range of trainees' pay²⁰.
19. Data from the Youth Cohort Survey (YCS) on trainees' wages at the 25th percentile on average across sectors and by sector are shown in Chart 3.12. 16 year olds in training were paid on average £1.50 in Spring 2002 at this point of the wage distribution. Pay of 16 year old trainee hairdressers and mechanics was slightly below this level and the pay of trainees in the construction industry only a little above. The sectoral pattern of relative pay is repeated for 18 year olds but average pay across sectors was significantly higher, at £2.31 at the 25th percentile, still well below the prevailing rate of National Minimum Wage.
20. In addition to the significant sectoral variation in trainees' pay shown in the YCS data, there is also some variation in trainees' pay by region both at the median and at the 25th percentile. Small sample sizes reduce the degree of confidence with which inferences can be made from the data but it is reasonable to infer that trainees' pay is likely to be higher in the South East than across England and Wales as a whole and lower in the North East, and to a lesser extent in Wales.
21. Given the different methodology in the Youth Cohort Survey for deriving hourly pay (discussed in paragraph 15 of this section and in more detail in Annex 5), we would expect its estimates of pay for those in training to be below those derived from the NES and LFS using ONS methodology. The different methodology used to derive hourly pay in the Youth Cohort Survey should not however affect the ratio of trainees' pay to the pay of employees not in training where data on both are taken from the YCS. On average across sectors 16 year old employees were paid twice as much as 16 year olds in training in Spring 2002. The YCS also shows that the same ratio for 18 year olds is only 1.55. However, this partly reflects the fact that some 18 year olds have been in training for up to two years and their wages are affected by their greater experience, whereas 16 year olds will not have had a whole year in training. Data on the wages of 18 year olds who have not previously been in training show that their wages are almost exactly half the wages of 18 year old full-time employees.

¹⁹ There are data on the wages of 29 employee apprentices in the Spring 2003 Labour Force Survey – a very small sample to start with. Also, only 12 of these people gave a response to the direct hourly rate question which is used in the derivation of the low pay estimates. Those that did not respond would have their hourly rate imputed relying on other individuals' answers and many of these responses will come from people who are not apprentices which could lead to an upward bias in the measurement of their pay.

²⁰ Information from two other sources of data, the Manchester Low Pay Unit's survey of job vacancies and a survey of training providers undertaken by the Learning and Skills Council is in Annex 4.

22. This indicates that 16-18 year olds embarking on training are paid well below the average pay of their full-time employee equivalents. At the 25th percentile the ratio is about half; at the median the ratios differ with 16 year old employees paid around 1.8 times as much as those in training while 18 year old employees are paid around 1.5 times as much as those in training. These data suggest that the differential between trainees' and employees' wages may be greater in the lower deciles of the wage distributions.

The role and structure of a minimum wage rate for 16-17s

23. The Government introduced the National Minimum Wage to end exploitation through low wages and as part of its policies to make work pay. It would be wrong to allow 16 and 17 year olds in employment, the youngest workers, to be exploited through low wages. However, for 16 and 17 year olds employment is a second best option to an appropriate course of education or training; as a result a minimum wage rate should not harm their opportunities and incentives to remain in education or take up a training course, or their employment prospects.

24. While a minimum wage rate for 16-17s would provide a legal barrier to exploitatively low wages its role would differ significantly from the role the minimum wage plays for adults because it would not be part of the Government's policies to make work pay. Together the National Minimum Wage for adults and the Working Tax Credit guarantee a minimum income for working families. This is important both to ensure that there are significant positive gains to work and to ensure that working is an effective means of alleviating poverty. But the minimum wage rate for 16 and 17 year olds should not be designed to improve the gains to work for this age group, which would alter incentives to participate in education or training.

25. Further a minimum wage rate is not an appropriate way to tackle poverty in this age group. Appropriate education or training is the best way of ensuring against poverty over the longer term. Because of its potential impact on incentives to stay in education or undertake training a minimum wage rate for this age group set at an inappropriate rate would pose a risk to longer-term prospects of exiting or staying out of poverty.

26. A simple way of bringing 16 and 17 year olds into the National Minimum Wage framework would be to extend the current youth rate, currently covering 18 to 21 year olds, to include them. This section of the evidence presents data which indicate that any minimum wage rate for 16 and 17 year olds should be separate from the rate for 18-21 year

olds and also the arguments for setting the same rate for 16 and 17 year olds if a minimum wage were introduced for this age group²¹.

27. A minimum wage rate could be set for 16 and 17 year olds in the UK simply by expanding the age range of the 18-21s rate. However, in October 2004 the 18-21s rate will be uprated to £4.10 (subject to the Government's consideration of the Commission's review of its uprating proposals). This level of minimum wage for 16 and 17 year olds would imply a coverage rate of around 40% of 16-17 year old employees, far above the expected coverage rates of around 6-8% of adults and 18-21 year olds.²² This would jeopardise employment prospects for 16 and 17 year olds and could have a substantial influence on their choices to undertake training or stay in education after the end of compulsory schooling. For example, a minimum wage of £4.10 per hour is likely to be well above average pay for 16 and 17 year olds in training.²³
28. The risks to employment prospects of 16 and 17 year olds from a minimum wage rate that is set for a much wider group of workers, and therefore may not be appropriate for them is clearly illustrated in recent policy changes in Spain. During the 1990s Spain unified its minimum wage system, moving from a system under which 16 year olds, 17 year olds and adults all faced different minimum wages to one with a single minimum wage for all. A study²⁴ of the impact of this policy shift showed that there is a much higher risk that increases in the minimum wage will result in increases in unemployment for 16-17 year olds than for older age groups, even those aged 18-19.
29. The evidence on the Spanish experience also shows that the unemployment rates of 16-17 year olds are more sensitive to the economic cycle than those of older workers. This is consistent with evidence for the UK. Chart 3.13 shows employment rates for 16 to 17 year olds, 18 to 21 year olds and adults aged 22 and over, as well as real GDP growth, in the period 1992-2002. It strongly suggests that during this period the employment prospects of 16 to 17 year olds have been much more sensitive to economic growth than those of older age groups. In itself a more volatile employment rate might be a cause of concern. But more importantly if a period of unemployment can have

²¹ Some countries with a minimum wage simply apply the adult rate to younger workers; e.g. the United States, Canada, Portugal, Greece and Spain. These are also countries which tend to have a more modest adult minimum wage (when expressed as a percentage of full time median earnings). Countries which have a higher adult minimum wage tend to set a reduced rate for younger workers; examples are France, Australia and New Zealand.

²² These coverage rates are based on Spring 2003 ONS central estimates and assume that in the absence of the planned increases in the minimum wage rates low paid workers' earnings would rise in line with average earnings or price inflation.

²³ The YCS data show that average pay for 16-17 year old trainees in Spring 2002 was £2.32

²⁴ 'Equating out minimum wages in Spain by age' - I. G. Guemes, C. P. Dominguez (2001)

long-lasting negative effects on an individual's employment prospects then greater cyclical volatility strengthens the argument for caution in setting any minimum wage rate for 16 and 17 year olds.

30. Research shows that periods of unemployment experienced during youth affect labour market performance later on in an individual's working life²⁵. Even after controlling for education, regional effects and family characteristics, a spell of unemployment between the ages of 16 and 23 lasting 3-6 months extends the average spell of unemployment in the subsequent 10 years by 4.5 months for men and 2.5 months for women relative to a person having had no experience of unemployment, while the hourly wage at 33 is lowered by 9.6% and 5.4% respectively. After a longer spell of 7-12 months, compared to no unemployment during youth, a man (woman) on average will experience an additional 10 months (5 months) of unemployment in the period when he (she) is aged 23-33. At age 33 the wage will be 15% and 8.8% lower for men and women respectively²⁶.
31. The evidence on the relative labour market performance of 16 and 17 year olds is set out in Chart 3.6 which shows that 16 year olds not in FTE have an unemployment rate 11.6 percentage points higher than that of 17 year olds. Further, the Youth Cohort Survey provides data on the wages of 16-17 year olds and of 18-19 year olds which show that there is a considerable increase in average wages (measured either by mean or median wages) between these two age groups. For example 18-19 year old employees' mean wage in the YCS data is 20% above 16-17 year old employees' mean wage²⁷. This suggests that wages for 17 year olds will on average be somewhat higher than for 16 year olds. Despite the very different unemployment rates and the likelihood that there is some difference in the wage distributions 16 and for 17 year olds there are good reasons for setting the same rate for these two age groups.
32. Firstly, the National Minimum Wage framework is designed to impose a floor guaranteeing decent minimum earnings, and while pay distributions may vary across even a narrow age range, the level of decent minimum earnings does not. Secondly, there is insufficient data available to discriminate between the wages of 16 year olds and 17 year olds to enable different minimum wage rates to be set with

²⁵ "Persistent poverty and Lifetime Inequality: The Evidence", CASE report no. 5/HM Treasury Occasional Paper no. 10 and Gregg, P. and Tominey, E. (2003): "Youth Unemployment and Adult Wages", CMPO mimeo, Bristol

²⁶ "Persistent poverty and Lifetime Inequality: The Evidence", CASE report no. 5/HM Treasury Occasional Paper no. 10 and Gregg, P. and Tominey, E. (2003): "Youth Unemployment and Adult Wages", CMPO mimeo, Bristol

²⁷ Partly this will reflect the fact that 18-19 year olds are covered by the youth minimum wage rate.

confidence that they were appropriate for the two groups. Finally, different rates for 16 year olds and 17 year olds would complicate the National Minimum Wage framework significantly and imply a greater burden for businesses employing 16 and 17 year olds and for the Inland Revenue which has the responsibility of enforcing NMW legislation.

Training exemptions

33. Currently, apprentices under 19 or under 26 and in the first year of their apprenticeship do not qualify for the minimum wage²⁸. It is not possible to evaluate directly the impact that the existing exemption has had on the volume of training, but there is evidence to indicate that the introduction of the NMW, with the existing exemptions for apprentices, has at least not reduced the volume of training. The expansion of training places in England to 150,000 places in 2001/02, compared with 96,000 in 1998/99, indicates that the NMW may not have significantly affected the training expansion through the Modern Apprenticeship scheme. More formal evidence²⁹ using difference-in-difference techniques shows that individuals whose wages were affected by the introduction of the NMW have not experienced a reduced probability of receiving training, and that the amount of training they receive has increased.

34. A training exemption is likely to be at least as significant for the 16-17 year old age group as for 18 year olds. According to the Youth Cohort Survey data, 7% of 16 year olds are in Government Supported Training (GST), or about 43,000 individuals. At age 18 8.3% are in GST (about 51,000 individuals)³⁰.

²⁸ Section 12 of the National Minimum Wage Regulations 1999 sets out certain categories of workers who do not qualify for the minimum wage:

- section 12(1) provides that workers who have not reached the age of 18 do not qualify for the minimum wage;
- section 12(2) provides that apprentices who are in the first year of their employment or have not reached the age of 19 do not qualify for the minimum wage. However apprentices who are in the first year of their apprenticeship do qualify for the minimum wage if they have reached the age of 26;
- section 12(3) provides that a person may also be treated as employed under a contract of apprenticeship if he is engaged under a Modern Apprenticeship.

The Government will need to consider any recommendations made by the Commission in the light of its plans for outlawing age discrimination in employment and vocational training under the European Employment Directive from 1 October 2006.

²⁹ See Arulampalam et al Work-related training and the New National Minimum Wage in Britain, November 2002.

³⁰ These proportions are very close to those reported in Department for Education and Skills' census data which show that in 2001 the proportions of 16, 17 and 18 year olds in Government Supported Training were 7%, 9.4% and 8.3% respectively.

35. Earlier in this section, the evidence showed that 16-17 year old apprentices' wages are significantly below those of employees of the same age. For example, in the YCS data both for 16-17 year olds and 18-19 year olds the median training wage is well below employees' pay at the 25th percentile.
36. Further, a significantly higher proportion of 16 year olds in the North East are participating in Government Supported Training (as shown in Table 3). There is also regional variation in trainees' pay, as discussed in paragraph 20 of this section. This suggests that a minimum wage rate for 16 to 17 year olds would have differential impacts on training across regions, and that trainees in the North East may be more vulnerable to changes to incentives following the introduction of a minimum wage rate.
37. Trainees' wages are currently underpinned by the Minimum Training Allowance which was described in section 2. Decisions on trainees' minimum pay are reached by the Department for Education and Skills, the Government Department with responsibility for training and with close links to the Learning and Skills Council, which has most of the expertise within Government on the training sector.

Annex 1

Chart 1.1

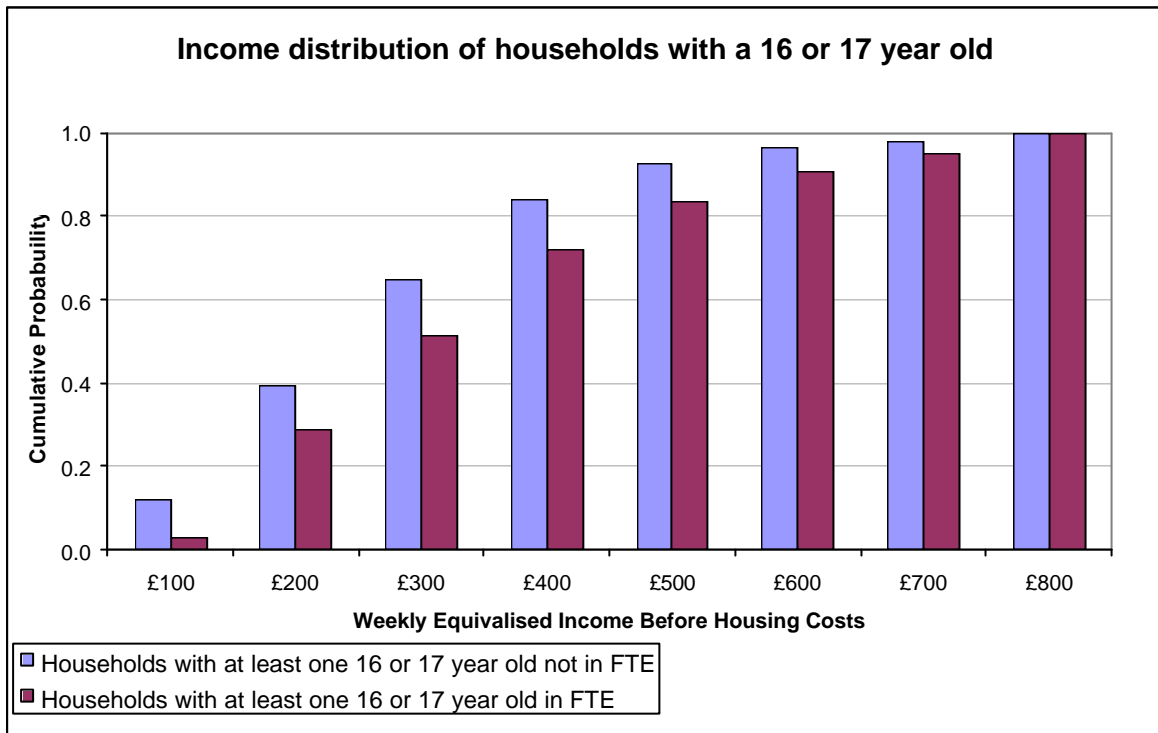


Chart 1.2

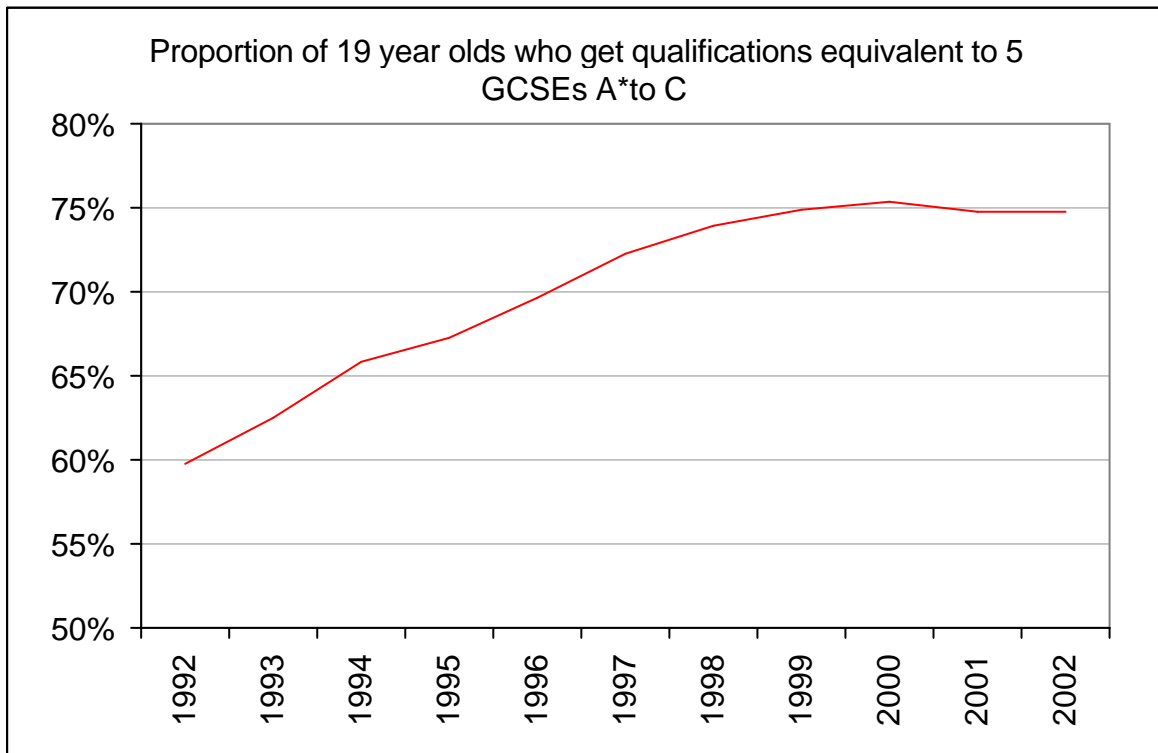


Chart 2.1

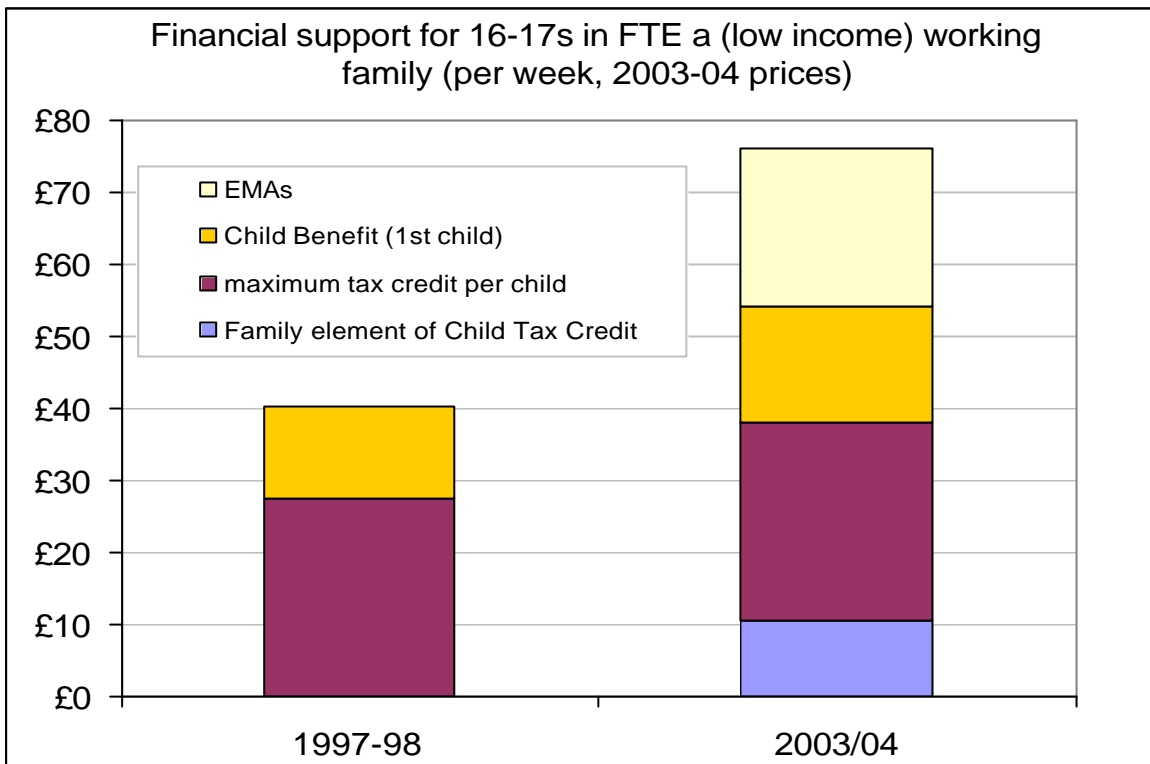


Chart 3.1

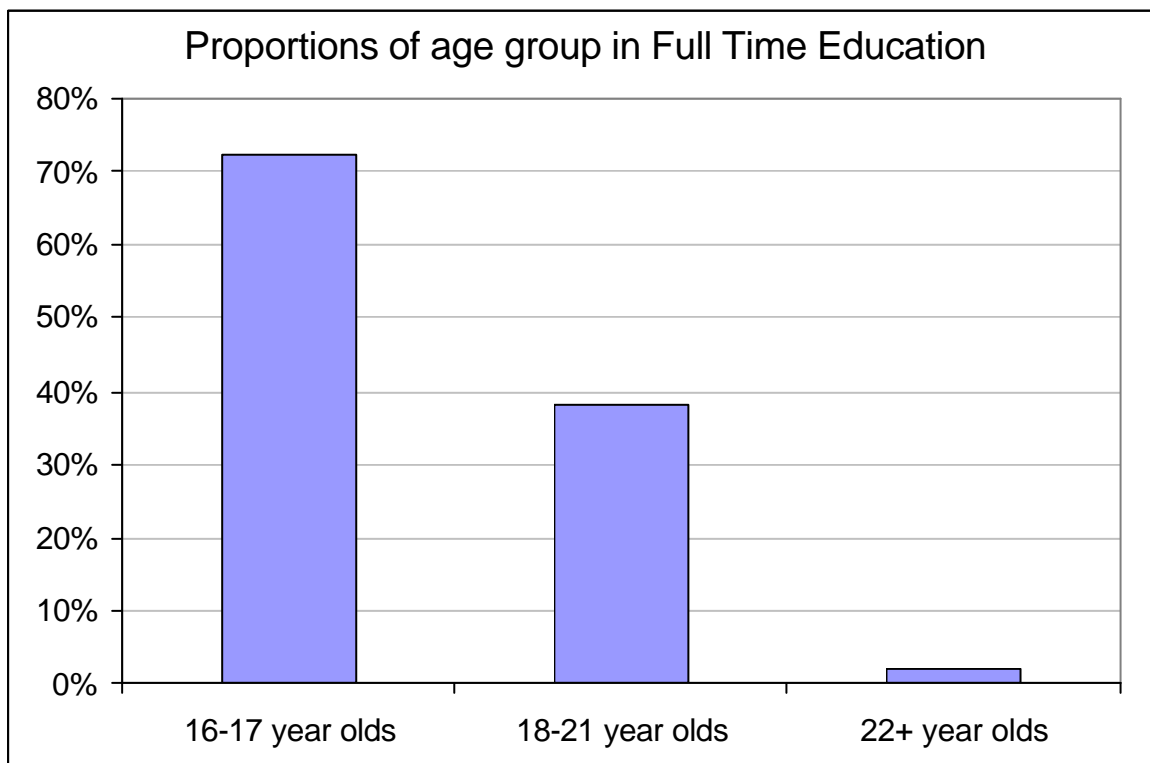


Chart 3.2

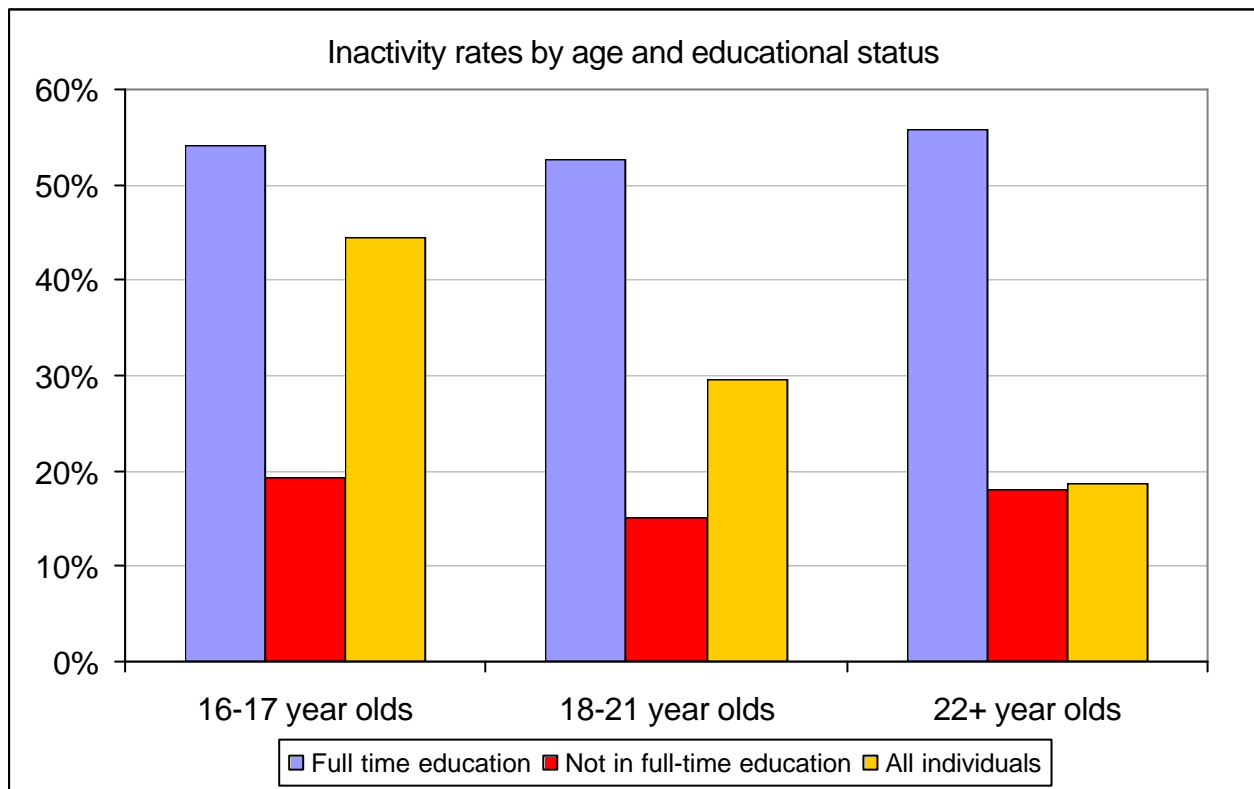


Chart 3.3

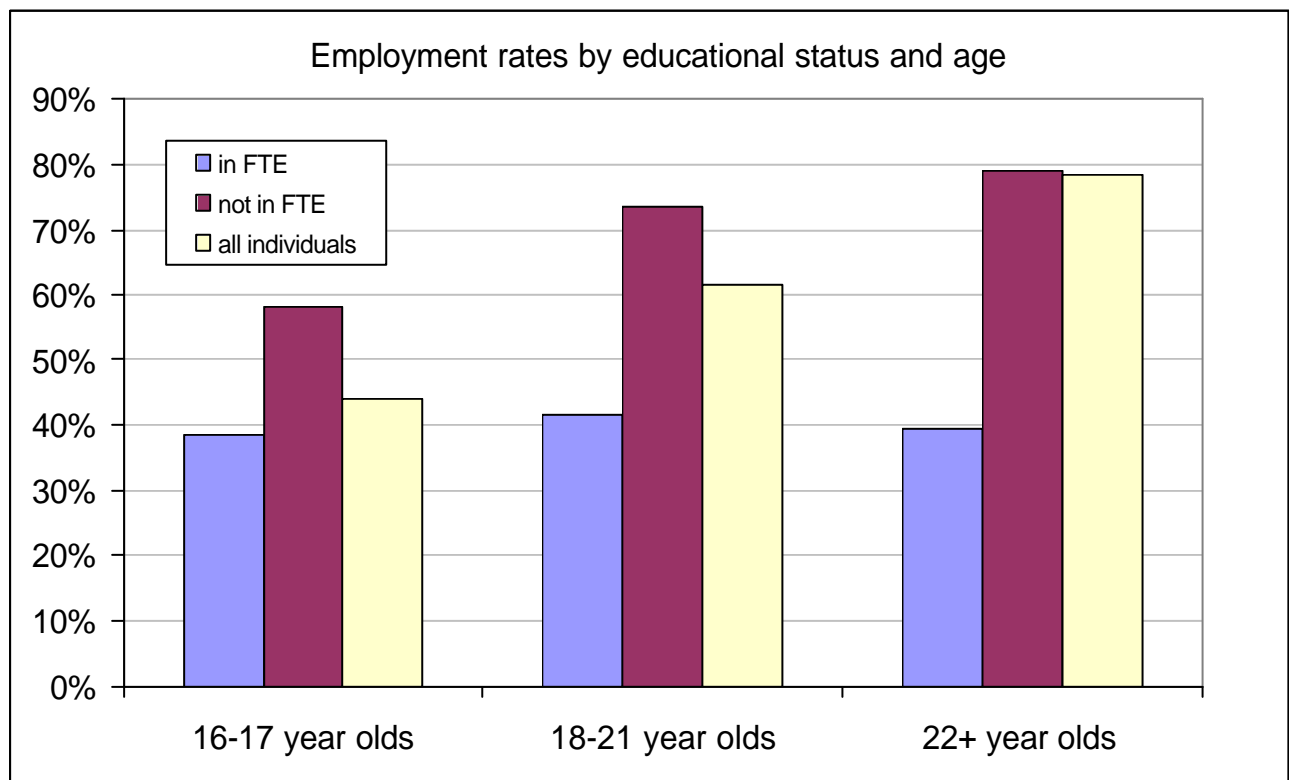


Chart 3.4

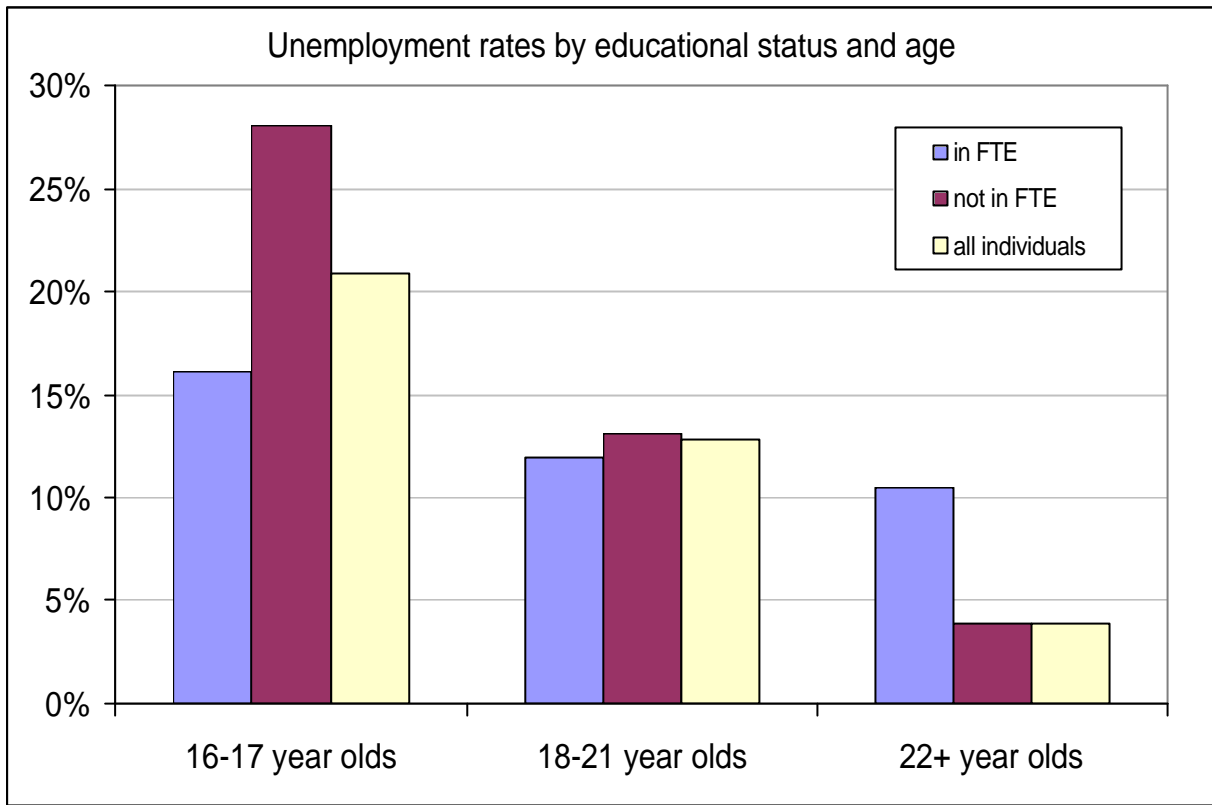


Chart 3.5

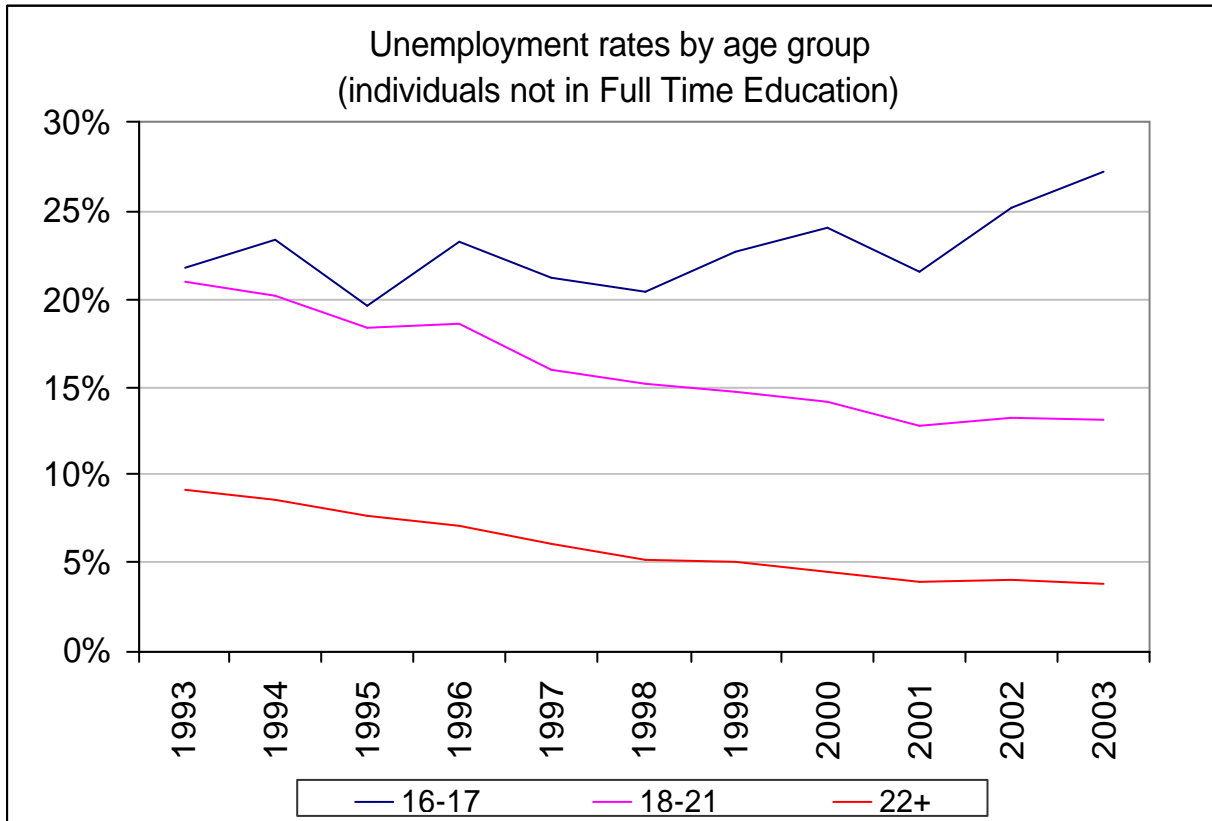


Chart 3.6

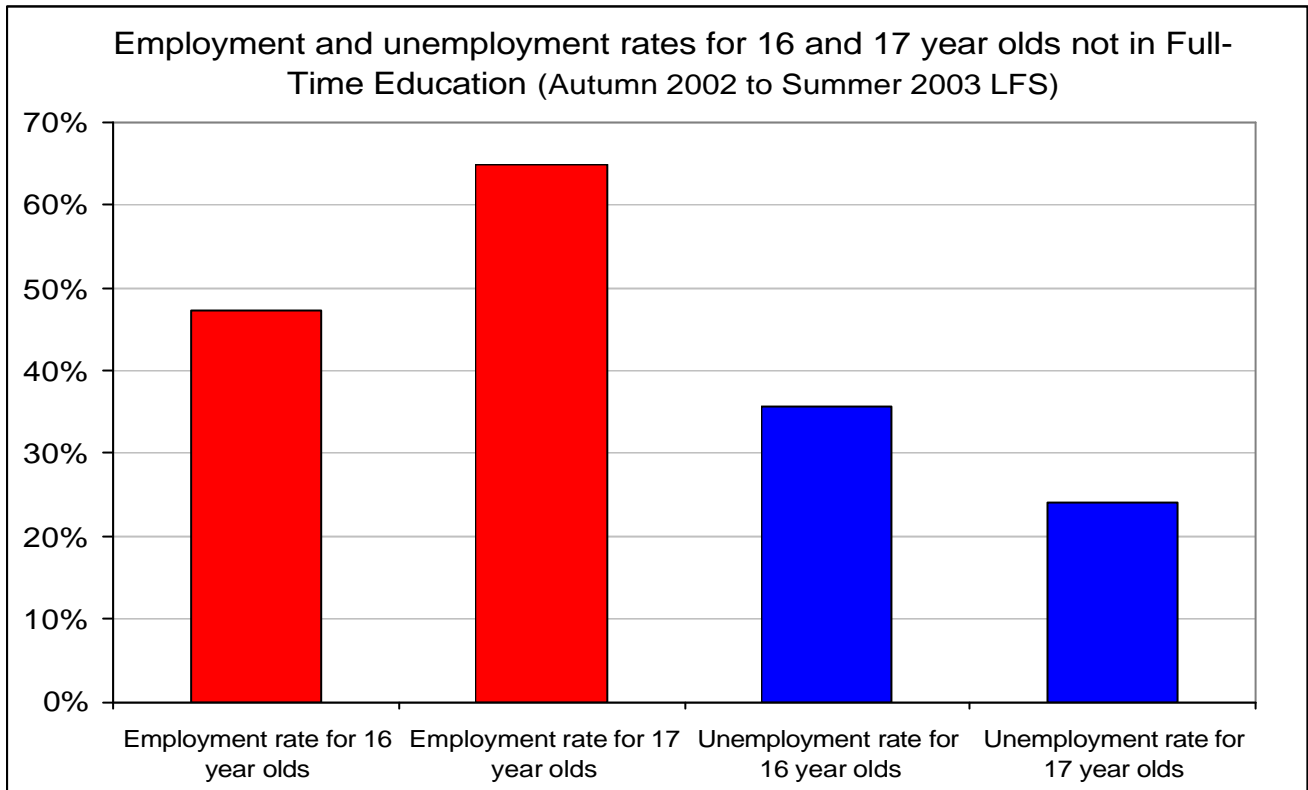


Chart 3.7

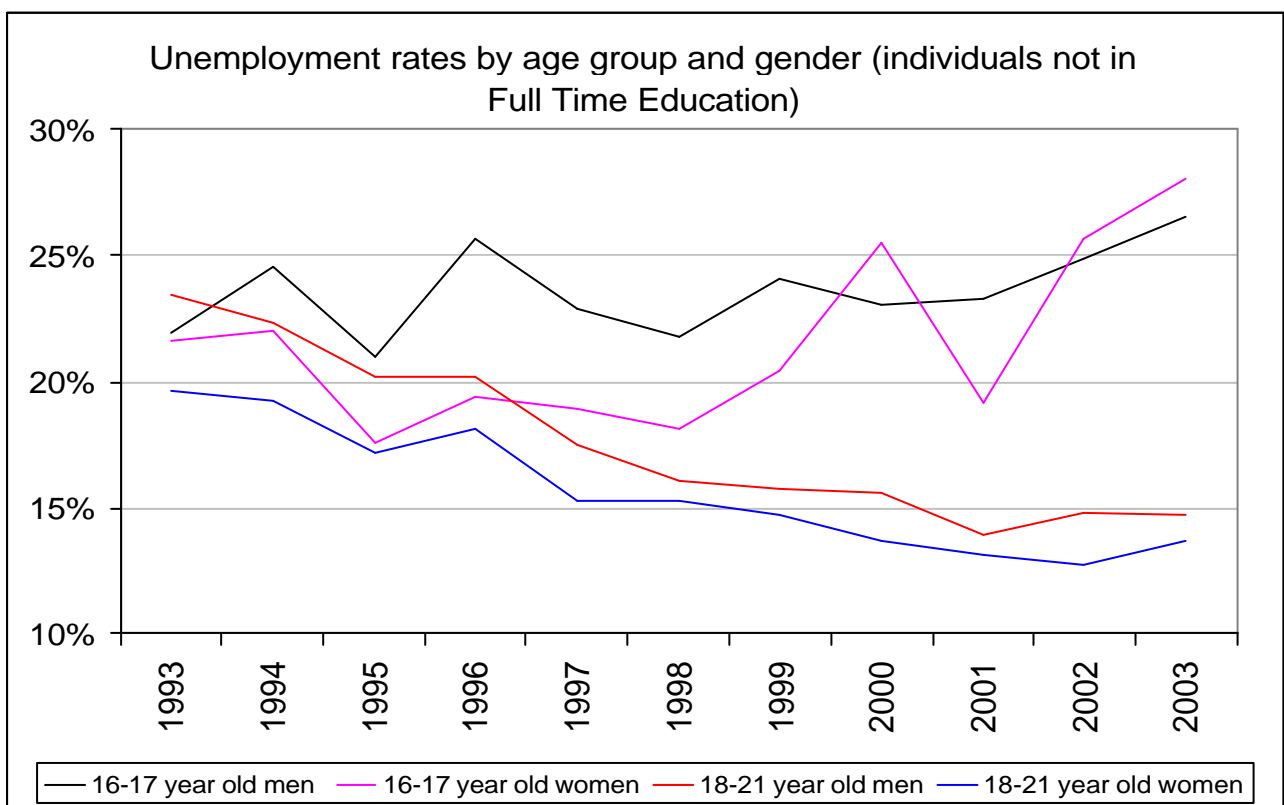


Chart 3.8

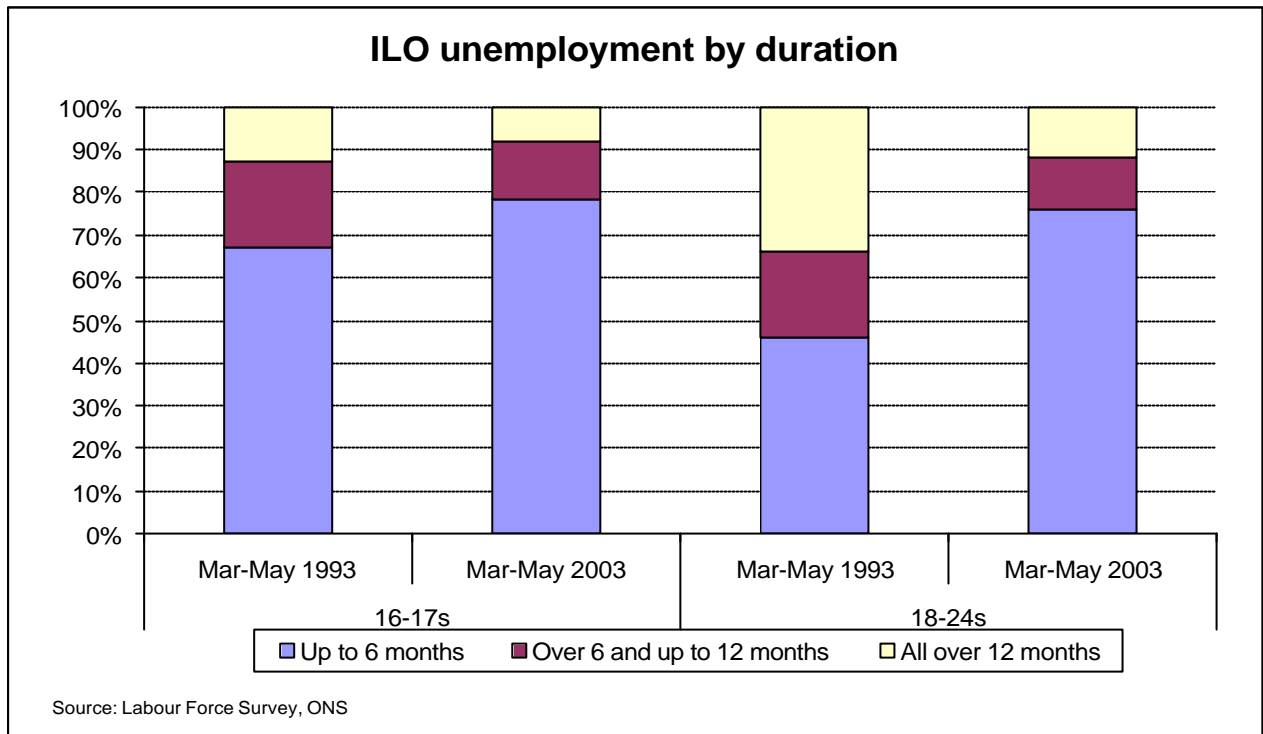


Chart 3.9

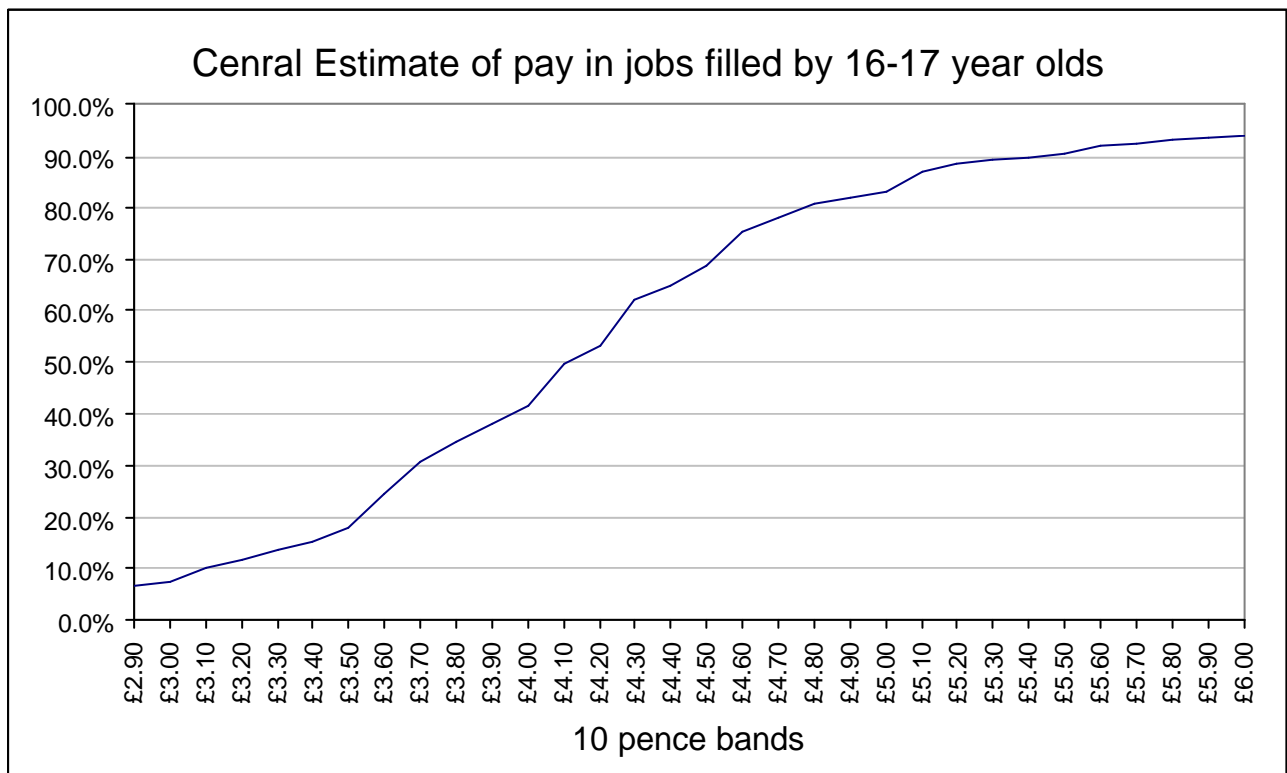


Chart 3.10

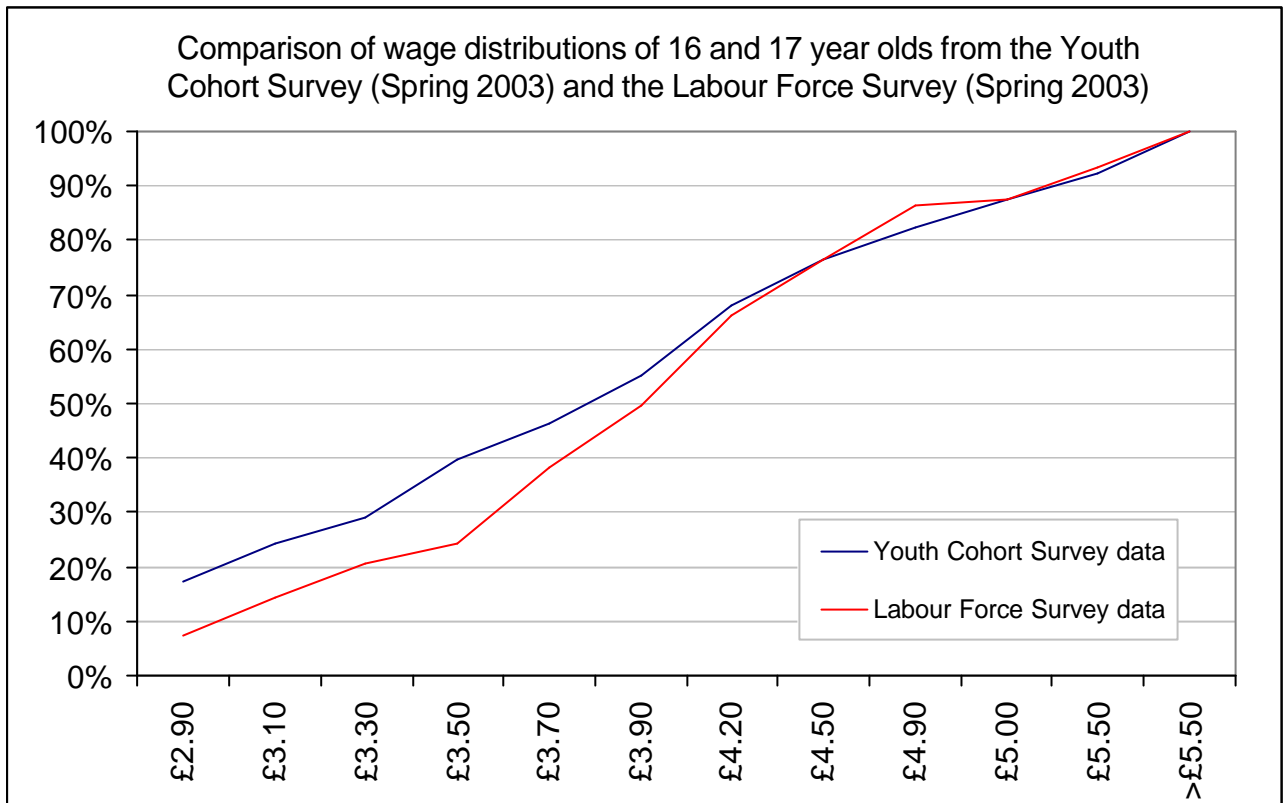


Chart 3.11

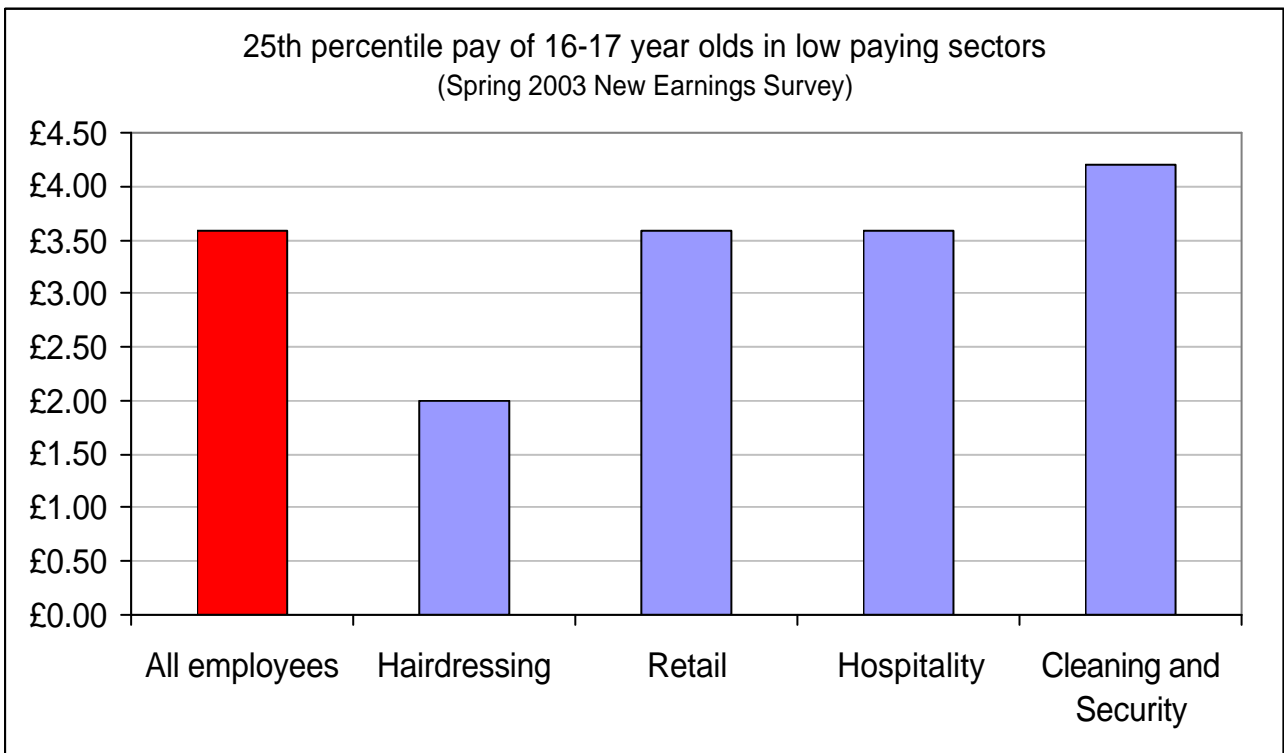


Chart 3.12

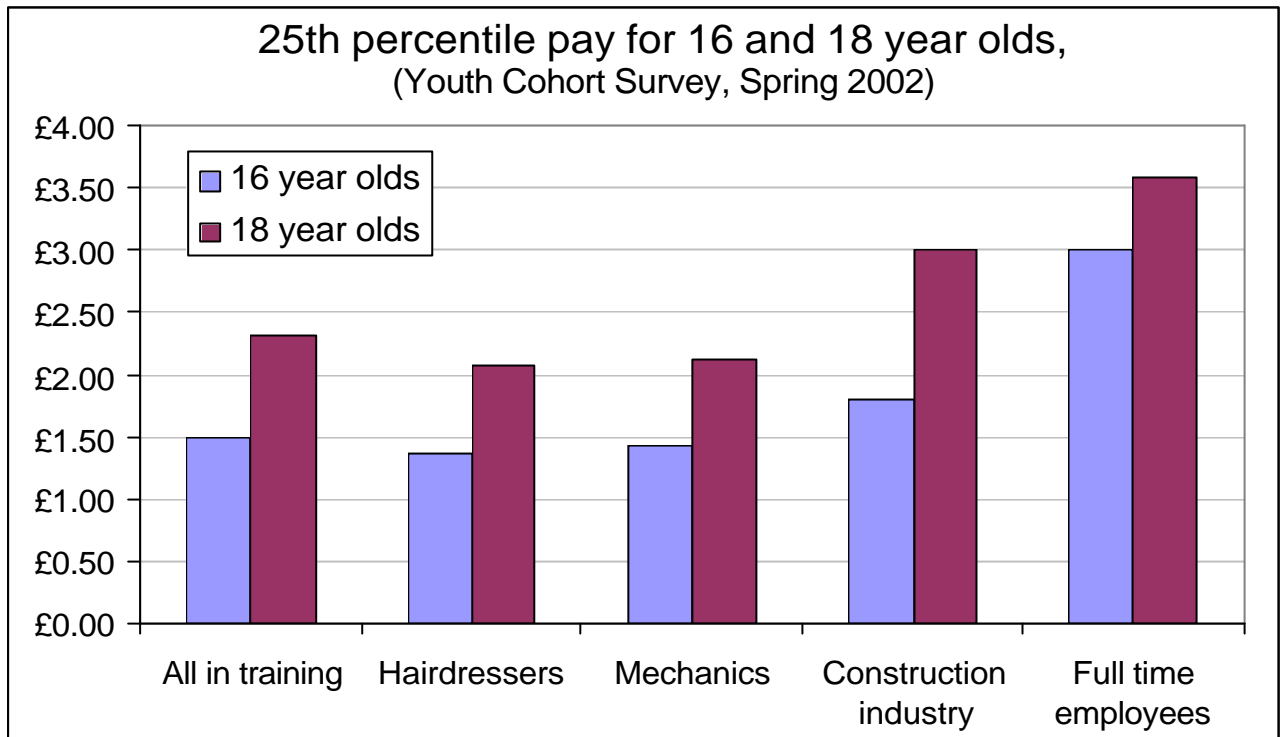
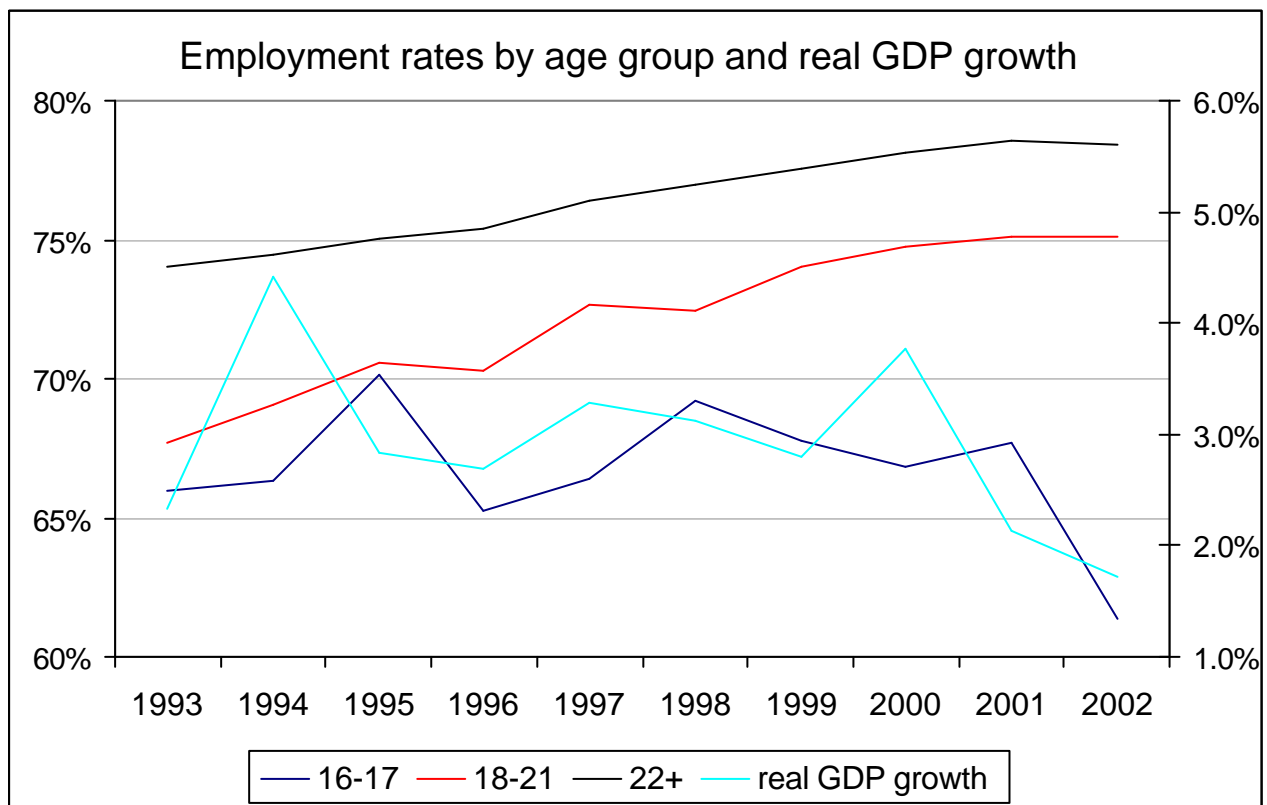


Chart 3.13



Annex 2: 16 and 17 year olds' pay distributions

Number of jobs filled by 16-17 year olds paying below different pay rates, spring 2003

Cumulative totals (000's) and Percentages

Less than	All 16-17 year olds (Central Estimate)	%	All 16-17 year olds (NES)	%	All 16-17 year olds (LFS)	%	16-17 year olds excl those in full-time education* (LFS)	%
£3.00	44	7.3%	63	10.5%	*	*	*	*
£3.50	107	17.9%	129	21.7%	85	14.3%	*	*
£4.00	250	41.8%	246	41.1%	255	42.6%	64	36%
£4.50	410	68.6%	390	65.3%	430	71.9%	118	66%
£5.00	497	83.1%	478	80.0%	516	86.2%	142	79%
£5.50	541	90.4%	523	87.4%	558	93.3%	162	91%
£6.00	562	93.9%	548	91.7%	575	96.2%	168	94%
All jobs	598	100%	598	100%	598	100%	179	100%

Source: DTI estimates based on ONS Central estimates, New Earnings Survey and the Labour Force Survey

* Numbers in columns will not add as they are not mutually exclusive and also there are missing values to apprenticeship and education variables

Annex 3: Pay distributions; ONS central estimates

Number and proportion of jobs paying below certain pay rates
Spring 2003, Central estimate
Cumulative total

Less than	Thousands			Per cent		
	16-17	18-21	22+	16-17	18-21	22+
£2.90	40	7	42	6.7%	0.4%	0.2%
£3.00	44	8	43	7.3%	0.5%	0.2%
£3.10	61	10	47	10.1%	0.6%	0.2%
£3.20	71	12	53	11.8%	0.7%	0.2%
£3.30	82	17	56	13.6%	1.0%	0.2%
£3.40	90	20	63	15.1%	1.2%	0.3%
£3.50	107	24	65	17.9%	1.4%	0.3%
£3.60	147	38	78	24.6%	2.2%	0.3%
£3.70	184	67	84	30.7%	3.8%	0.4%
£3.80	207	87	98	34.6%	5.0%	0.4%
£3.90	228	113	111	38.1%	6.5%	0.5%
£4.00	250	129	119	41.8%	7.4%	0.5%
£4.10	298	159	163	49.8%	9.1%	0.7%
£4.20	320	192	224	53.5%	11.0%	1.0%
£4.30	372	344	732	62.2%	19.6%	3.1%
£4.40	389	397	947	65.1%	22.7%	4.0%
£4.50	410	448	1,137	68.6%	25.6%	4.8%
£4.60	452	556	1,523	75.6%	31.8%	6.5%
£4.70	465	613	1,797	77.8%	35.0%	7.7%
£4.80	482	672	2,065	80.6%	38.4%	8.8%
£4.90	490	722	2,305	81.9%	41.3%	9.8%
£5.00	497	758	2,514	83.1%	43.3%	10.7%
£5.10	521	899	3,157	87.0%	51.4%	13.5%
£5.20	528	939	3,442	88.3%	53.6%	14.7%
£5.30	533	984	3,786	89.2%	56.2%	16.1%
£5.40	538	1,033	4,076	90.0%	59.0%	17.4%
£5.50	541	1,064	4,328	90.4%	60.8%	18.4%
£5.60	550	1,126	4,759	92.0%	64.3%	20.3%
£5.70	553	1,154	5,057	92.4%	65.9%	21.6%
£5.80	557	1,186	5,394	93.2%	67.8%	23.0%
£5.90	560	1,222	5,639	93.7%	69.9%	24.0%
£6.00	562	1,237	5,875	93.9%	70.7%	25.0%
All jobs	598	1,750	23,460	100.0%	100.0%	100.0%

Source: ONS central estimates from Spring 2003 Labour Force Survey and April 2003 Grossed New Earnings Survey

Annex 4: Surveys of trainees' pay

The table below sets out the information on trainees pay available from existing surveys.

*Of the total 3132 job vacancies surveyed, 2704 jobs were available to 16 year olds and 2892

Survey	Labour Force Survey	Youth Cohort Survey	Manchester Low Pay Unit's survey	Learning and Skills Council survey
Subject of survey	Individuals	Individuals	Job vacancies	Training providers
Sample size	29	913 (691 16-17 year olds)	3132*	455
Date of survey	Spring 2003	Spring 2002	Jan-Feb 2002	Summer 2003
Age of those surveyed to 17 year olds.	16-17 year olds	16-17 and 18-19 year olds	Vacancies for which 16-22 year olds were eligible to apply	16-18 year old trainees on providers' programmes

The Youth Cohort Survey data were discussed in some detail in section 3. The remainder of this Annex compares data from the Manchester Low Pay Unit's survey and the Learning and Skills Council survey with the information in the Youth Cohort Survey.

The Manchester Low Pay Unit's data (from a survey of Jobcentre vacancies in January and February 2002) shows that the average wage for 16 year old Modern Apprentices on an NVQ level 2 course were paid £2.11 per hour. Modern Apprentices on NVQ level 3 course earned on average £2.52 per hour. These averages are close to the Youth Cohort Study data on average pay for 16 year old trainees³¹.

16 year old Modern Apprentices	Youth Cohort Survey Spring 2002	Manchester Low Pay Unit (January-February 2002)
Level 2	£2.17 (FMA)	£2.11 (MA, NVQ level 2)
Level 3	£2.60 (AMA)	£2.52 (MA, NVQ level 3)

In addition to average levels of pay for 16 and 17 year old apprentices being very similar in the two surveys, the distribution of pay for 16 year old apprentices is similar in the Youth Cohort Survey and in the Manchester Low Pay Unit's survey of job vacancies. This is shown in the table below.

³¹ Using Foundation Modern Apprenticeships as a proxy for level 2 and Advanced Modern Apprenticeships as a proxy for level 2.

Manchester Low Pay Unit survey job vacancies: pay distribution for apprentice jobs available to 16 year olds		Youth Cohort Survey data - pay distribution for 16-17 year olds on Modern Apprenticeships	
Pay up to	Cumulative percentage of jobs	Pay up to	Cumulative percentage of jobs
£2.50	69%	£2.60	67%
£2.75	75%	£2.90	69%
£3.00	78%	£3.10	78%
£3.25	85%	£3.30	84%
£3.50	87%	£3.50	87%
£3.75	92%	£3.70	90%
£4.00	94%	£3.90	93%

The Learning and Skills Council collected data from 455 training providers on the level of starting and average wages for apprentices in Summer 2003. The data from this survey are difficult to compare with the other surveys because they are based on training providers' information on average wages for trainees on their programmes, not on individuals' wages and the number of trainees in a provider's programme is therefore not reflected in the data. Nevertheless for two of the sectors on which the YCS can provide information measures of average wages and wages in the lower part of the distribution in each sector are broadly similar.

	Learning and Skills Council survey (16-18 year olds)		Youth Cohort Survey data (16-17 year olds)	
Sector	Starting FMA wage (per hour)	Average FMA wage (per hour)	25 th percentile wage	Average wage
Hair and Beauty	£1.14	£2.00	£1.38	£1.83
Construction	£1.71	£2.87	£1.80	£2.72

Annex 5: Estimates of low pay in the Youth Cohort Survey and the Labour Force Survey

At first glance it would seem that estimates of low pay for 16-17 year olds produced by the ONS from the Labour Force Survey are not coherent with those from the Youth Cohort Survey. The LFS estimate suggests that there were 7.5 per cent of jobs filled by those aged 16-17 pay below £2.90 per hour in Spring 2002 whilst the YCS suggests that 26 per cent of 16-17 year olds are paid up to this amount. The main reason for this large discrepancy is due to the fact that the YCS uses a derived hourly pay variable whilst the ONS estimate uses a direct hourly rate variable, imputing values for those people who do not respond as having an hourly rate.

The Labour Force Survey

The Labour Force Survey has several questions on earnings. Firstly respondents are asked to provide their gross weekly earnings in their last pay period. This is then divided by the usual hours that respondents work per week to arrive at a 'derived' hourly earnings estimate. It has been discovered that this 'derived' hourly pay variable underestimates hourly earnings therefore inflating the numbers of the low paid. This is predominantly because the hourly pay variable refers to usual hours of work whereas the gross weekly pay asks about the pay in the last pay period. Where the employee has worked less hours in the reference week compared to normal, their weekly pay may well be lower than normal – this is particularly the case for low paid workers. If this weekly amount of pay is divided by usual hours then the hourly pay will be artificially low.

For this reason, the Office for National Statistics added a 'direct' hourly pay rate to the Labour Force Survey to get improved hourly pay rates so that estimates of the low pay would be improved. Respondents are asked whether they are paid an hourly rate, and if so what the amount is. If respondents do not have an hourly rate then an estimate is imputed using a regression equation and a nearest neighbour donor technique (details can be obtained from Skinner et al 2003³²). This variable has been shown to be a much improved estimate of low pay compared to the 'derived' hourly pay rate. Its effect was that the number of jobs paying below the NMW and number of people who stood to benefit from the introduction and subsequent upratings have been significantly revised downwards by the ONS.

It is now estimated that 7.5 per cent of 16 – 17 year olds earned less than £2.90 in Spring 2002 which compares to 23.6 per cent when the derived hourly pay variable is used. Similar effects can be seen for 18 –21 year olds and people aged 22 and over (see table 1 below).

³² Skinner et al (2003) The Measurement of Low Pay in the UK Labour Force Survey, Oxford Bulletin of Economics and Statistics, 64, supplement (2002) 0305-9049

Table 1. Proportion below pay thresholds from spring 2002 LFS – derived hourly pay compared to direct hourly rate estimates

	16-17 year olds (< £2.90 per hour)	18-21 year olds (<3.50 per hour) ³	22+ year olds (<£4.10 per hour) ³
Derived Hourly pay (HOURPAY) ¹	23.6	11.8	6.4
Direct Hourly rate (HRRATE) ²	7.5	2.6	1.4
HRRATE as a % HOURPAY	31.8	22.0	21.9

Source: Labour Force Survey, spring 2002

1 This is the proportion of employees in their main job which are paid below certain pay rates according to the last payment of weekly earnings divided by usual weekly hours

2 This is the proportion of jobs (i.e. employees in main and second job) who are paid below certain pay rates using question and regression and imputation procedure adopted by ONS.

3 These were the NMW rates as of Spring 2002 for these age groups

Youth Cohort Survey

The Youth Cohort Survey is a survey of school leavers which aims amongst other things looks at the employment of young people. In April 2002, it surveyed around 8,000 people who were aged 16 as of 31 August 2001. Of these people around 4,000 were in employment. Because the YCS stipulates that respondents were aged 16 as of August the previous year it will have a smaller proportion of respondents aged 16 and 17 compared to the Labour Force Survey in the Spring of 2002. Those people who were not quite 16 as of August 01 and also those who were 17 at this point will not be sampled.

Like the Labour Force Survey it also asks about earnings. The question in the YCS questionnaire is as follows: *How much money do you usually take home each week or each month from this job or training, after deductions but including bonuses or overtime?* Again like the Labour Force Survey there is a question on hours worked, the survey asks *How many hours do you usually work each week in total?*

From these questions an hourly pay rate is derived which suggest that the proportion of 16-17 year olds earning up to £2.90 per hour is 26 per cent. This is very similar to the estimate from the derived hourly pay variable in the LFS – 24 per cent. We can see from table 2 that this coherent picture carries on further up the pay distribution where there is only a maximum difference of 4 percentage points.

Table 2. Comparison of proportions paid up to certain derived hourly pay rates from the YCS and the LFS, Spring 2002

Hourly pay	YCS	LFS (HOURPAY)
<=£2.90	26	24
<=£3.10	32	30
<=£3.30	38	34
<=£3.50	48	46
<=£3.70	54	52
<=£3.90	62	60
<=£4.20	73	69
<=£4.50	80	77
<=£5.00	90	86

Source: 2002 Youth Cohort Survey and spring 2002 Labour Force Survey

The remainder of the difference between the estimates from the two surveys can be put down to the fact that the Youth Cohort interviewed only people aged 16 at August 2001 in April 2002 whereas the LFS interviewed all people aged 16 or 17 in the Spring of 2002. Added to this the YCS is a self-completion survey whereas the LFS is interviewer administered and also there are differences in question wording.

Annex 6: Breakdown of trainees by training programme and age

<u>Programme</u>	Age			
	16	17	18	Total
E2E equivalent group	11,561	5,750	1,580	18,891
FMA	28,087	30,623	22,078	80,788
AMA	8,617	15,944	22,316	46,877
NVQ2	4,412	5,266	3,512	13,190
NVQ3	210	704	1,208	2,122
NVQ4	2	7	78	87
Unknown programme	4,645	3,683	2,982	11,310
Total	57,534	61,977	53,754	173,265

Source: Learning and Skills Council, administrative data

Notes:

1. Data for England only
2. Ages as at 31 August 2002
3. Figures show numbers in learning as at 1 June 2003
4. Status is that on first day of learning
5. There are 7,473 (41%) learners for whom the status is unknown (in addition to those shown as participating in an unknown programme; this total cannot be broken down into waged and non-waged learners)

Breakdown of Non-Waged Learners by Programme and Age

<u>Programme</u>	Age			
	16	17	18	Total
E2E equivalent group	10,632	5,110	1,360	17,102
FMA	7,292	6,025	2,841	16,158
AMA	288	646	748	1,682
NVQ2	2,810	2,624	1,138	6,572
NVQ3	73	233	258	564
NVQ4	2	0	4	6
Unknown programme	1,303	799	410	2,512
Total	24,400	15,437	6,759	46,596

Source: Learning and Skills Council, administrative data

Notes:

1. Data for England only
2. Ages as at 31 August 2002
3. Figures show numbers in learning as at 1 June 2003
4. Status is that on first day of learning