

PUBLICATION OF THE FOURTH REPORT FROM THE LOW PAY COMMISSION AND THE GOVERNMENT'S RESPONSE

In June 2002 I asked the independent Low Pay Commission to produce their fourth report on the national minimum wage by the end of February 2003. I deliberately gave the Commission a wide remit so that they could come back with recommendations on any aspect of the minimum wage, including the levels of the adult and development rates.

The Government is today publishing the Commission's fourth report and I would like to take this opportunity to thank the Chair of the Commission, Adair Turner and its other members for their work on this very important issue.

The Commission have put forward sixteen recommendations in total, but I regard five of these as key recommendations.

The Commission have recommended increasing the adult rate of the minimum wage from the present £4.20 to £4.50 in October 2003, and to £4.85 in October 2004. They have recommended increasing the development rate from the present £3.60 to £3.80 in October 2003 and £4.10 in October 2004. They have also recommended that they should be invited to fine-tune the recommended October 2004 upratings of the rates in early 2004, in the light of economic circumstances.

The Commission have found little or no evidence so far of any significant impact on the employment prospects of the low paid, and they believe that all the signs are that the minimum wage can now be increased as a percentage of average earnings – benefiting more workers – without producing damaging economic effects. The Commission have therefore proposed successive increases to the adult rate of around 7-8% in both 2003 and 2004 – about double the present rate of average earnings. Between 1.3 to 1.6 million low-paid workers stand to benefit from the 2003 increases, and 1.7 to 2.5 million low-paid workers stand to benefit from the 2004 increases.

The Government agrees with the broad approach followed by the Commission; namely that the minimum wage should be increased in order to help the low paid, while taking care not to damage their employment prospects. We are therefore pleased to accept the recommended rate increases for 2003 and also to provisionally accept the increases for 2004 subject, as the Commission proposes, to their further advice in early 2004 in the light of economic circumstances.

The Commission has recommended that they be asked to consider the case for introducing a minimum wage rate for 16-17 year old workers and to report by February 2004, so that a rate could be introduced by October 2004.

The Government agrees that this is a serious issue which merits further consideration. The Government will ask the Commission to look at the possible advantages and disadvantages of a minimum wage rate for 16 to 17 year olds in the context of a wider review looking at education and training policy, and the system of financial support for young people. The Commission will be asked to work closely with relevant Departments. The Government will draw up a formal remit for the Commission's work on this issue and the review of the proposed 2004 increases shortly, including the timing of their report.

The fifth key recommendation from the Commission is that we should move 21 year old workers onto the adult rate. Unfortunately we are unable to accept this recommendation. Economic evidence continues to show that employment and unemployment rates for 21 year old workers are more in line with 18 to 20 year olds rather than older workers, and in some cases worse than those for 20 year olds. We therefore believe that there would be a real risk of further damaging their employment prospects if they were moved onto the adult rate.

I have placed copies of this statement, the Report from the Low Pay Commission, the Government's full response to the Commission's recommendations and our Regulatory Impact Assessment in the House Libraries.

SUMMARY OF RECOMMENDATIONS IN THE LOW PAY COMMISSION'S FOURTH REPORT AND THE GOVERNMENT'S RESPONSE

The Low Pay Commission's fourth report recommends:-

National Minimum Wage Rates

1. The adult rate of the minimum wage should be increased to £4.50 in October 2003. The rate should be further increased to £4.85 in October 2004, subject to confirmation by the Commission in early 2004.

Accept. The increase in the adult rate will take place on 1 October 2003. The 2004 increase is provisionally accepted, subject to consideration of the Commission's advice as proposed.

2. The development rate should be increased to £3.80 in October 2003 and - subject to confirmation nearer the time - to £4.10 in October 2004. These rates should apply to 18-20 year olds and to workers on the older workers' development rate.

The Government accepts the recommended rate changes. The 2003 increase will take place on 1 October, as with the adult rate increase. The 2004 increase is - again - provisionally accepted, subject to advice from the Commission as proposed. But we do not accept the recommendation to move 21 year olds on to the adult rate (see recommendation 4 below).

3. The Government should give the Low Pay Commission a remit to fine-tune the recommended October 2004 upratings of the adult rate and the development rate in early 2004, enabling us to consider whether our recommendations remain appropriate in the light of economic circumstances.

Accept.

Young People

4. Twenty-one year olds should receive the adult rate of the national minimum wage and the age coverage of the youth development rate should be kept under review.

The Government does not accept this recommendation. Analysis of the employment and unemployment rates for young workers suggests a mixed performance on the part of 21 year olds, and we do not want to jeopardise their job prospects.

5. The Government should ask the Commission to 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.

Agree that this is a serious issue which merits further consideration. The Government will ask the Commission to look at the possible advantages and disadvantages of a minimum wage rate for 16 to 17 year olds in the context of a wider review looking at education and training policy, and the system of financial support for young people. To achieve this, the Commission should work closely with relevant Departments including DfES, DWP, DTI and the Treasury. The Government will draw up a formal remit for the Commission's work on recommendations 3 and 5 shortly, including the timing of its report.

Accommodation Offset

6. The level of the accommodation offset should be increased in line with the increase in the adult rate, producing a rate of £24.40 per week in October 2003 and £26.25 per week in October 2004, and the hourly and daily rates should be abolished. Where accommodation is provided for less than the full week, the accommodation offset should be correspondingly reduced.

Accept.

Low Pay Statistics

7. The Government should ensure that the Office for National Statistics devote sufficient attention and resources to achieving the improvements to the low pay statistics identified as necessary in the Review of Distribution of Earnings Statistics, in accordance with the timetable set out in the implementation plan.

The Government accepts that the improvements to the low pay statistics recommended in the Review of Distribution of Earnings Statistics are needed. It therefore welcomes the Office for National Statistics' confirmation that sufficient resources have been allocated to the tasks outlined in the Implementation Plan published on 10 January 2003, aimed at achieving the improvements recommended in the Review.

Awareness

8. The Small Business Service should actively promote and disseminate factual information on the national minimum wage that is tailored to small firms.

Accept. The Small Business Service has already begun work on this issue.

9. The Government should continue to publicise the minimum wage both to businesses and to workers on an ongoing basis. Publicity should cover the headline rate and the Helpline, with targeted publicity tailored to different groups.

Accept. There will be publicity ahead of the rate changes on 1 October.

Enforcement

10. There should be further proactive enforcement, with greater co-ordination between Inland Revenue and wider Government compliance initiatives, and encouragement of employers' and unions' compliance initiatives. The Government should also evaluate the use of existing powers, and identify whether any changes in practices or powers are needed to strengthen the deterrent to non-compliance.

Accept. The Government will continue its work in these areas.

11. The Government should evaluate the impact on customer service of the action taken to strengthen co-ordination between the Inland Revenue and the Advisory, Conciliation and Arbitration Service.

Accept. We are developing these actions and will of course be looking to ensure that they are effective.

Advice to Businesses

12. Organisations such as the Small Business Service (through its Business Link network) and sectoral trade bodies should be encouraged to continue to provide advice and consider further ways to promote best practice.

Accept.

13. The Government should further publicise the information and advice services provided by the Advisory, Conciliation and Arbitration Service for businesses to help them manage their response to the minimum wage within the law.

Accept.

Social Care Sector

14. The Government should continue vigorously to promote implementation of the 2001 agreement on commissioning care and should ensure that its impact is carefully monitored.

Accept. Resources are set to increase by an average of 6% per annum in real terms over the next three years.

Sleepovers

15. The Government should examine whether the present uncertainty over the treatment of 'sleepovers' can best be resolved through revised guidance, or whether a change to the Regulations is required.

Accept. The Government will be issuing revised Detailed Guidance on the minimum wage shortly.

Therapeutic Activity

16. The Government should monitor the impact of its revised guidance on the minimum wage and therapeutic activity very closely, in particular whether it helps to reduce uncertainty for those involved in this field, and should ensure that people doing therapeutic activity are not adversely affected by uncertainty about the minimum wage.

Accept. The Government has recently issued revised guidance on this issue and will be looking to discuss this with those involved in the field.
