



Decent pay for apprentices

Updating and extending the Learning and Skills Council's minimum rate – and reviewing the National Minimum Wage Exemptions

Introduction

The TUC supports Apprenticeships and want to see their numbers grow. The commitment by Government to increase the number of Apprenticeships to 400,000 in England by 2020 is very welcome. However, we also recognise that the quality of Apprenticeships varies, with some apprentices receiving extremely low pay and inadequate training, with a resulting detrimental impact upon completion rates.

With the expansion of Apprenticeships, there must be an increase in efforts to ensure that all programmes are high quality and lead to good jobs, and are not an expansion of programme-led approaches without employed status. It is also crucial that tackling equality and diversity is at the heart of any expansion of Apprenticeship programmes. Women apprentices suffer particularly badly from low pay. Ensuring decent pay must be at the heart of strategies to improve quality, and this paper sets out the TUC's arguments for uprating apprentice pay and developing mechanisms for a stronger enforcement system.

Ensuring decent pay protection for apprentices

Apprentices under the age of 18 or in the first year of their Apprenticeships are exempt from the National Minimum Wage. As Apprenticeships are now largely based on competency rather than time served, Apprenticeships tend to be of shorter duration so there will be many apprentices exempt from the National Minimum Wage. This is particularly the case given the majority of apprentices are aged 16-18. The average length of an Apprenticeship varies significantly between sectors,

However, most of those who are exempt from the minimum wage do have some protection against the worst ravages of exploitation. The Learning and Skills Council currently insists that employed apprentices in England are paid at least £80 per week. This measure was introduced to protect apprentices against exploitation from unscrupulous employers, and to ensure that apprentices earned enough to support themselves during their training. This minimum pay rate has not been increased since it was first established in August 2005.

The TUC argues that pay protection for apprentices could now be substantially improved by adopting the following measures:

- the LSC should increase the minimum contractual payment for apprentices to £110 per week; and
- should introduce a robust system of enforcement in order to stamp out exploitation.
- the Scottish and Welsh authorities should consider adopting similar measures.
- The Low Pay Commission should re-examine the current exemptions as part of its 2008/2009 inquiry to check whether they are still justified.

Apprentices need better pay protection

There are currently about 250,000 apprentices. The TUC has been concerned for some time about low paying Apprenticeships and, in particular, the width of the gender pay gap for apprentices. It is therefore important to ensure that the proper legal protection is in place in order to ensure that apprentices are paid enough to help motivate them, to enable them to complete their courses, and to ensure that that they are not exploited by unscrupulous employers.

Since August 2005 the Learning and Skills Council has stipulated that apprentices must be paid at least £80 per week. Providers are responsible for ensuring that apprentices receive at least £80. This is enforced through the contractual relationship between the LSC and providers. Since almost all Apprenticeships rely on some state-funded training this has established a useful floor on apprentice pay although the TUC is concerned that not all apprentices receive as much as £80.

Low pay in Apprenticeships is particularly gendered. As identified by the DfES survey, the gender pay gap in Apprenticeships is 26 per cent, making the gender pay gap in Apprenticeships higher than in the broader labour market. For example hairdressing and early years care are the two lowest paying sectors, employing 92 per cent and 97 per cent women respectively.

The LSC's minimum payment stipulation has a much broader coverage than the National Minimum Wage Regulations (1999), which established a floor on pay for about 25 per cent of apprentices who simply receive the minimum wage in full.

The coverage of the minimum wage is relatively low in this area because apprentices aged 16 to 18, and older apprentices during the first year of their Apprenticeship are currently exempt from the regulations.

The TUC's goal for the coming period is to try to increase the minimum rate for apprentices to the highest level that can be sustained without causing a net loss in the overall number of Apprenticeships available. This will help improve quality and completion rates.

Reviewing the minimum wage apprentice exemptions

The TUC therefore welcomed the Prime Minister's commitment, made on 28 November 2007, to put this issue before the Low Pay Commission. However, since the review is not in the LPC's current remit, and most Apprenticeships start in August, the results of such a consultation would not lead to any changes before the October 2009 minimum wage increase at the earliest. More urgent action is needed.

Uprating the LSC minimum payment requirement

Our most immediate priority is therefore to uprate the LSC minimum payment for apprentices in order to ensure that it is set at the highest sustainable level.

In selecting a new target, we have taken into account both the erosion of the real value of the £80 floor since 2005 and the fact that we believe that the initial figure

was too modest and could be improved on without discouraging employers from providing Apprenticeship places.

Maintaining the value of the LSC £80 contractual pay minimum

| | August 2008 | August 2009 |
|-----------------------------|-------------|-------------|
| Uprated by RPI inflation | £89.10 | £91.33 |
| Uprated by average earnings | £89.98 | £93.67 |

Source: ONS website plus HMT roundup of independent forecasts for the UK economy

Clearly the LSC's minimum payment would need to be uprated by about £10 just to restore its initial real value.

We also examined how many apprentices benefited from the minimum payment and estimate how many might benefit from uprating.

The DfES 2005 report ⁽¹⁾, which is the latest comprehensive data available on apprentice pay, found that the average apprentice was contracted to work for about 32 hours, with one day of unpaid off-the-job training.

The tables below show the percentage of all apprentices and 16-17 year old apprentices paid below the LSC's minimum payment just before it was introduced. The tables also show the number of apprentices paid below the NMW rates at that time.

Percentage of all apprentices earning less than the 2005 minimum wage rates²/ minimum contractual payment

| | £80 per week | £3.00 | £4.10 | £4.85 |
|--------------------|--------------|-------|-------|-------|
| All apprentices | 20% | 29% | 48% | 69% |
| Male apprentices | 10% | 16% | 35% | 59% |
| Female apprentices | 33% | 47% | 65% | 81% |

Source: DfES report 2005

Percentage of 16/17-year-old apprentices earning less than the minimum wage rates ²/ minimum contractual payment

| | £80 per week | £3.00 | £4.10 | £4.85 |
|------------------------|--------------|-------|-------|-------|
| All 16-17 apprentices | 30% | 42% | 65% | 85% |
| Male 16-17 apprentices | 15% | 25% | 52% | 79% |
| Female 16-17 | 50% | 66% | 83% | 92% |

¹ 'Apprentice pay: A survey of earnings by sector', DfES Research Report 674, 2005

² Minimum wage rates applying in 2004/2005: 16 & 17 year olds £3.00 per hour, 18-21 year olds £4.10 per hour, adult rate £4.85. Equivalent rates 2007/2008: £3.40, £4.60, and £5.52.

| | | | | |
|-------------|--|--|--|--|
| apprentices | | | | |
|-------------|--|--|--|--|

Source: DfES report 2005

It should be noted that the DfES figures describe the worst-case scenario. This is because they are likely to have understated the real level of gross pay, as the survey combined gross and net pay data. Net pay, which takes into account deductions for Income Tax, National Insurance and other deductions, is a somewhat poor measure for gauging the impact of a minimum gross payment.

Despite its faults, the DfES study is the only source of data on apprenticeship pay. The study is likely to be updated shortly.

The 2005 study reported that 20 per cent of apprentices earned less than £80 in 2005, whilst only a further 9 per cent earned less than the minimum wage rate for 16 and 17 year olds.

Turning to young apprentices aged 16 and 17, 30 per cent had the potential to benefit from the introduction of the minimum payment of £80 per week. However, only a further 12 per cent would have benefited if they had simply been paid the relevant minimum wage rate.

If these proportions still hold true, then about 50,000 apprentices rely on the LSC's minimum payment, whilst the remaining 200,000 are paid more.

If apprentices were to be paid at least the current minimum wage youth rate of £3.40 per hour for their 32-hour average week they would earn £108.80. Therefore, increasing the LSC minimum guarantee to £110 per week would establish a pay floor close to the minimum wage youth rate.

If the proportion of apprentices earning less than the youth rate is still 29 per cent (see table above), then an increase to £110 per week would extend the coverage of minimum payment to protect approximately 72,000 apprentices, which would be an increase of 22,000 (under 10 per cent of apprentices) on the current coverage.

We argue that this increase would be a significant step towards ensuring the quality of Apprenticeships without placing difficult burdens on employers. Indeed, a higher minimum payment would have a beneficial effect on recruitment, retention and motivation. Research by the Apprenticeship Taskforce noted that low wages are one of the significant reasons for non-completion of Apprenticeships.

A key point is that the strong incentive of state subsidy to fund Apprenticeship training has meant that the introduction of a minimum payment of £80 has occurred alongside a significant increase in completion rates. Apprenticeship completion rates increased by 13 per cent between 2004/05 and 2005/06 to reach 53 per cent. Completions have continued to improve since that time. Completion rates can be a proxy for quality, and improving completions signifies improving quality, which is extremely important for the image of Apprenticeships, which in turn will have a positive influence on demand.

This echoes the experience of the introduction of the national minimum wage when some commentators were predicting negative economic effects which failed to materialise.

Apprenticeships attract significant public funding, which varies between types of Apprenticeship. Typically, each Apprenticeship place receives subsidized training of between £3,000 and £15,000 annually. Therefore by participating in Apprenticeships, employers are benefiting from a significant amount of publicly subsidized training.

Whilst we could see some need for caution when setting the initial rate, we argue that with the benefit of experience it is clear that it was set far too low. A step change is needed to bring the minimum payment up to the right level.

The table below shows the worst-case impact of uprating to £110 on sectors with a high concentration of apprentices.

The biggest impact would be likely to be felt in hairdressing, where as many as 70% of apprentices may currently be paid less than £110 per week. However, even in this sector the impact only amounts to an increase of 0.12 per cent in the overall employee paybill for the sector, which would equate to an increase of £1 for every £800 currently paid to hairdressing employees.

At the other end of the scale, the impact of increasing the pay of all customer services apprentices to £110 per week would not exceed 0.0005% of the current paybill, which would mean that employers would have to pay an increase of £1 for every £500,000 currently paid in to customer services employees.

These figures are low enough to convince the TUC that the impact could be managed without deterring employers from providing apprenticeships.

Impact of uprating to £110 on industry paybills

| Industry | All employees (thousands) | Paybill (excluding on-costs) £ millions | Number of apprentices | Apprentices paid below £110 | Per cent increase in pay-bill needed to pay all apprentices £110 |
|--------------------------------|---------------------------|---|-----------------------|-----------------------------|--|
| Construction | 1,466 | £40,765 | 19,651 | 19% | 0.01% |
| Hairdressing | 139 | £1,512 | 16,658 | 70% | 0.12% |
| Customer services | 410 | £5,516 | 15,258 | 11% | 0.0005% |
| Hospitality and catering | 878 | £11,634 | 13,422 | 14% | 0.003% |
| Vehicle maintenance and repair | 210 | £4,460 | 8,412 | 23% | 0.07% |
| Retail | 2,601 | £36,965 | 8,167 | 38% | 0.01% |

Sources: DfES 2005, ONS Labour Force Survey Microdata Service Summer 2007, ONS Annual Survey of hours and Earnings 2007. This table shows the industries with the highest concentration Decent pay for apprentices ESAD January 2008

of apprentices for which all the necessary data is available. It represents a sample of about 80,000 apprentices - 1 in 3.

Our belief in this proposal is strengthened by the fact that if the minimum payment were increased to £110, seven out of ten apprentices would remain unaffected as they already earn more than this figure, so the 'bite' of the new minimum would not be excessive. Uprating apprentice pay to £110 will help support the most vulnerable, and will have a particular impact on female apprentices.

Extending and strengthening the minimum rate.

The minimum contractual payment only applies to apprentices in England at the moment. The TUC will discuss the possibility of establishing similar measures with the relevant authorities in Scotland and Wales. We will work in consultation with the STUC in Scotland and the Wales TUC office.

One further important concern is that the LSC has yet to establish a robust mechanism to ensure that apprentices can get their rights. The LSC should establish an enforcement regime should include both a program of inspections and an effective way of dealing with complaints. All apprentices should be given information about how to complain about underpayment.

TUC recommendations

- The LSC should increase the minimum contractual pay for apprentices to £110 per week from August 2008 onwards.
- The LSC should establish an effective enforcement regime to ensure that all apprentices get at least the minimum contractual payment.
- The TUC will discuss the possibility of establishing similar measures with the relevant authorities in Scotland and Wales.
- The Government should include a review of the minimum wage apprentice exemptions in the next Low Pay Commission round.