

FACT SHEET

Minimum wage system in the United Kingdom

1. Background

1.1 The Panel on Manpower (Panel) plans to undertake an overseas duty visit to study the minimum wage system in the United Kingdom (UK) and France. Against this background, the Panel has asked the Research and Library Services Division to prepare two separate fact sheets providing some basic information on the minimum wage system implemented in the UK and France.¹ This fact sheet presents the minimum wage system in the UK.

2. Development of the minimum wage system

2.1 The UK's minimum wage system dates back to May 1997 when the Labour party won the general election and formed a new government. At the time, the Labour party's manifesto was that there should be a statutory minimum wage decided not on the basis of a rigid formula but according to the economic circumstances of the time and with the advice of an independent Low Pay Commission (LPC).

2.2 LPC was established in July 1997 with the aim of advising the government about the coverage of the minimum wage system and the initial minimum wage rate. Meanwhile, the National Minimum Wage Bill was introduced into Parliament in November 1997. The main points of the Bill included:

- (a) introducing a national minimum wage system covering most of the workers;
- (b) determining a single minimum wage rate for adults²;
- (c) empowering the government to appoint inspectors to enforce the law; and
- (d) imposing penalties for non-compliance of the minimum wage system.

¹ A fact sheet entitled "Minimum wage system in France" (FS19/06-07) provides some basic information about the minimum wage system implemented in France.

² The government would await the report of LPC before deciding whether there should be a lower rate for trainees and young people.

2.3 LPC commenced its work by studying the academic literature on the subject from the UK and abroad. It also undertook extensive consultation to supplement the analysis of extensive research and official data. LPC received nearly 500 written submissions, and took oral evidence from a wide range of representative organizations. It also made visits to cities, towns and villages throughout the UK, where LPC solicited views from small firms, rural businesses, low wage workers and the unemployed.

2.4 In June 1998, LPC published its first report on the minimum wage system and made the following proposals:

- (a) establishing a national minimum wage system covering all business sectors and regions of the country;
- (b) setting an initial adult minimum wage rate of £3.6 (HK\$46.2)³ an hour and a lower rate of £3.20 (HK\$41.1) an hour for trainees and young people; and
- (c) assessing the effects of the minimum wage system implemented on the labour market and the economy.

2.5 The findings of the report were also presented to Parliament. The National Minimum Wage Act gained Royal Assent in July 1998. The national minimum wage system came into force in April 1999.

3. Coverage of the minimum wage system

3.1 The minimum wage system applies to most of the workers. Some people are not entitled to receive the minimum wage, who are:

- (a) genuinely self-employed;
- (b) some apprentices⁴;
- (c) trainees on government-funded schemes⁵;
- (d) serving members of the armed forces; and
- (e) share fishermen.

³ The average exchange rate in 1998 was £1 = HK\$12.83.

⁴ Apprentices who are under the age of 19, or aged 19 to 25 and in the first 12 months of their apprenticeship are not entitled to receive the minimum wage.

⁵ Some of those schemes are: (a) Entry to Employment in England; (b) Get Ready for Work in Scotland; (c) Access in Northern Ireland; and (d) Skillbuild in Wales.

4. Minimum wage rates

4.1 There are several minimum wage rates, depending on the age of a worker. The rates effective since 1 October 2006 are as follows:

- (a) adults (people aged 22 or above) receive the full rate of £5.35 (HK\$76.7)⁶ an hour (this will increase to £5.52 (HK\$79.1) from 1 October 2007);
- (b) a "development rate" of £4.45 (HK\$63.8) an hour is paid to workers aged 18 to 21 inclusive (this will increase to £4.60 (HK\$65.9) from 1 October 2007); and
- (c) young people (those older than school leaving age⁷ and younger than 18 years old) receive £3.30 (HK\$47.3) an hour (this will increase to £3.40 ((HK\$48.7) from 1 October 2007).

Accommodation Offset

4.2 There is a limit on the amount of accommodation payments that can count towards the minimum wage payment. That limit is known as the Accommodation Offset, which is currently set at £4.15 (HK\$59.5) per day (this will increase to £4.3 (HK\$61.6) from 1 October 2007). However, benefits in kind such as meals, cars and fuel do not count towards the minimum wage.

Number of minimum wage workers

4.3 LPC estimated that in 2006 the total number of minimum wage workers was around 1.3 million people, or 4.2% of the labour force. Two-thirds of the minimum wage workers were women.

⁶ The average exchange rate in 2006 was £1 = HK\$14.33.

⁷ The definition of "compulsory school age" varies slightly in England, Wales, Scotland and Northern Ireland. Generally speaking, in the UK, the "compulsory school age" starts at age five and ends at age 16.

5. Procedures for adjusting the minimum wage rates

5.1 Under the National Minimum Wage Act, LPC has a statutory function to provide independent expert advice to the government on matters related to the minimum wage system.⁸ One of its major responsibilities is to advise the government (i.e. the Secretary of State for Trade and Industry) on the rates of minimum wage adjustment as it thinks appropriate, based on the evidence gathered from a variety of sources such as employer associations, trade unions and academic experts.

5.2 Under the National Minimum Wage Act, the government is empowered to determine the minimum wage rates and put forward the determined adjustments to Parliament via regulations. These regulations are subject to affirmative resolution, and debated in Parliament which can agree to the regulations or otherwise. The rates are therefore subject to the decision of Parliament. Meanwhile, in practice, Parliament has not yet overturned recommendations made by the government on the minimum wage rates. The adjustment of the minimum wage rates, if any, usually takes place in October of a given year.

6. Criteria for adjusting the minimum wage rates

6.1 According to LPC, the minimum wage rates must balance the aim to address low pay with the need to ensure that the rates are manageable for businesses and the economy. In general, the criteria for adjusting the minimum wage rates include: economic conditions, pay differentials, the costs of business, competitiveness of the economy, inflation rate and employment level.

7. Enforcement

7.1 Her Majesty's Revenue and Customs (HMRC) has operational responsibility for enforcing the minimum wage system through the following combination of measures:

- (a) publicizing employer obligations and employee rights, principally through direct advertising, the employment right website and the minimum wage helpline;

⁸ LPC undertakes the following activities to form its expert advice: (a) commissioning research projects; (b) analysing relevant data and actively encouraging the Office of National Statistics to carry out better estimates of the incidence of low pay; (c) carrying out surveys of firms in low-paying sectors; (d) consulting employers, workers and their representatives; (e) taking written and oral evidence from a wide range of organizations; and (f) paying fact-finding visits throughout the UK to meet employers, employees and representative organizations.

- (b) requiring employers to keep minimum wage records;
- (c) investigating all complaints about non-payment of minimum wage. Compliance officers of HMRC will visit employers thought to be likely to pay below the minimum wage rates and take enforcement actions when necessary⁹; and
- (d) assisting individuals in taking action through an employment tribunal or the civil court.

Penal provisions

7.2 The penalties for non-compliance are set out in the National Minimum Wage Act, ranging from financial penalties of twice the hourly minimum wage per worker¹⁰ per day of continuing non-payment of minimum wage to prosecution with fines of a maximum of £5,000 (HK\$71,650) for specific criminal offences, which include:

- (a) under-paying minimum wage workers;
- (b) failing to keep minimum wage records;
- (c) producing and keeping false minimum wage records; and
- (d) refusing to give minimum wage records to the enforcement agency.

8. Major parties involved in the minimum wage system

8.1 The Appendix provides a brief description of major parties involved in the UK's minimum wage system.

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⁹ The targeted low-paying sectors include: hairdressing, childcare, agriculture, and food processing and packing sectors.

¹⁰ An adult minimum wage rate of £5.35 (HK\$76.7) is applied in the calculation.

Appendix

List of major parties involved in the minimum wage system in the United Kingdom

Legislature

A.1 Parliament has the authority to approve the adjusted minimum wage rates recommended by the government.

Government departments

A.2 The Department of Trade and Industry (DTI) is responsible for trade, business, employees, consumers, and science and energy. The minimum wage system is regulated by DTI.

A.3 Her Majesty's Revenue and Customs is the authority enforcing the minimum wage system.

Statutory body

A.4 The Low Pay Commission is responsible for providing independent expert advice to the government on matters related to the minimum wage system.

Employer associations

A.5 The Confederation of British Industry, founded in 1965, is the largest business organization in the United Kingdom (UK). Membership is corporate, comprising companies and employer associations. Its company members employ over four million people, and its employer association membership represents over six million people in some 200 000 firms.

A.6 The British Chamber of Commerce is the national network for chambers of commerce, which are local, independent and non-profit-making organizations funded by membership subscriptions. It has about 135 000 members in the UK.

Appendix (cont'd)

A.7 The Federation of Small Businesses is a pressure group, which promotes and protects the interests of small firms and the self-employed. It has over 174 000 members, and provides them with information and guidance on subjects related to employment and taxation.

Trade union

A.8 The Trade Union Congress represents the vast majority of trade unionists in the UK. Its membership now stands at 62 unions, representing some 6.5 million working people.

Research organization

A.9 The Low Pay Unit is an independent research organization committed to improving the position of low paid workers in the UK and eradicating poverty, inequality and exclusion through the promotion of social and economic justice.

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