

BRISTOL CITY COUNCIL

HUMAN RESOURCES COMMITTEE

For Information/Resolution

3rd June 2010

Report of: Strategic Director: Resources

Title: Apprentices : Implications of awarding the national minimum wage to apprentices aged under 19 years

Officer Presenting Report: Lorna Whitehead, Strategic HR Business Partner for Health & Social Care and Employee Initiatives

Contact Telephone Number: 0117 922 4603

RECOMMENDATION

To agree to the recommendation that:-

It is recommended that because of the additional financial pressure and the risk of fewer and fewer apprentices being taken on, (thus having a detrimental impact on the programme as a whole and having a negative impact on addressing the Workforce Plan), that all apprentices should not receive the minimum wage and that the status quo should remain.

Summary

Bristol Apprenticeships are 22 month work-based training programmes that consist of:

- An NVQ at Level 2 or Level 3
- Key skills, for example literacy, communication, application of number (numeracy), information and communication technology (ICT), or teamwork
- A technical certificate, which provides the underpinning knowledge

required

- Other qualifications or requirements as specified by the particular occupation
- Although apprenticeships were traditionally for 16-18 years old, they are now available to anyone over 16, (however this impacts on funding for the NVQs and can incur additional costs for the department)
- Apprentices aged over 19 (and only in the second year of their apprenticeship) do qualify for the national minimum wage

The significant issues in the report are:

Deciding whether or not it is appropriate to award the national minimum wage to apprentices aged under 19 years, without impacting adversely upon the scheme (by introducing unbudgeted costs, which could reduce apprenticeship appointments).

1. Policy

- 1.1 Apprentices are work-based training programmes and their pay rates fall outside the core grading/pay rates for posts in the City Council.
- 1.2 The apprentices are not covered by the Green Book terms and conditions.
- 1.3 Minimum wage rules do not currently apply to all stages of an apprenticeship. 16 to 18 year olds are exempt from the minimum wage if on an Apprenticeship.
- 1.4 The Bristol Apprenticeship Programme was implemented as part of the Recession Action Plan which highlights that under 24 year olds are hardest hit with employment opportunities significantly reduced.
- 1.5 The Bristol Apprenticeship Programme is an essential part of the solution in addressing various issues in relation to the Workforce Strategy, in particular the age disparity within the organisation (currently under 4% are under 24 years old, compared with 36% over 50 years).

- 1.6 Apprenticeships are in addition to the budgeted establishment as they are trainees.

2. Consultation

2.1 Internal

The Apprentices
Strategic Director - Transformation
National Apprenticeship Service

2.2 External

Apprenticeship contacts in neighbouring Local Authorities
Low Pay Commission
National Apprenticeship Service

3. Context

- 3.1 Bristol City Council successfully launched the Bristol Apprentices Programme in September 2009 and now employs 58 high level Bristol Apprentices. There continues to be a rolling programme of recruitment targeted to school leavers to encourage young people into the workforce to help close the skills gap, and to address under-representation within the workforce of under 24 year olds, as identified through the Workforce Strategy.
- 3.2 In line with the National Apprenticeships Scheme the National Minimum Wage does not currently apply to all stages of an apprenticeship. 16 to 18 year old apprentices are exempt from the minimum wage.
- 3.3 Bristol Apprentices currently earn £95 per week training allowance, as recommended by the National Apprenticeship Services as the minimum an apprentice should earn, in their first year of employment, which rises to £115 per week in the second year of employment and/or to the National Minimum Wage when they reach 19 years of age.
- 3.4 In addition to the Training Allowance Bristol Apprentices earning below the National Minimum Wage receive valuable additional support by being able to claim travel costs to and from work and college. For most apprentices this amounts to further £130 per month.
- 3.5 In addition to the pay, apprentices enjoy the opportunity to do real work,

gain employability skills and study for a relevant NVQ, all of which should lead to more sustainable employment within the Council or outside, at the end of their 22 month contract.

- 3.6 The apprentices are also entitled to discounted child bus fares with First Bus for the whole 22 month apprenticeship, regardless of whether their salary has gone up to the national minimum wage.
- 3.7 The current rates of pay for our Bristol Apprentices have encouraged and enabled our managers to create the significant number of apprenticeship opportunities within the City Council (currently 58 and anticipated to be over 100 by summer 2010).
- 3.8 The government has recently accepted a recommendation from the Low Pay Commission to introduce an apprentice minimum wage of £2.50 per hour, which will apply to apprentices under 19 and apprentices aged 19 and over in the first year of their apprenticeship. This works out at about £92.50 per week. Our current pay rate for the first year of a Bristol Apprenticeship is just over that, at £95 per week plus travel expenses which takes it up to £127.50.
- 3.9 Potential disadvantages and costs of awarding the national minimum wage to all apprentices are as follows:
 - Currently all 58 Bristol Apprentices are paid £95 per week (£2.71 per hour) in their first year of apprenticeship. This represents an annual salary of £4,954 for each and a total annual salary cost of £287,308 for the 58 apprentices.

If all 58 apprentices were awarded the national minimum wage from their start date, each would receive £169 per week (£4.83 per hour) in their first year of apprenticeship. This would represent an annual salary of £8,815 for each and a total annual salary cost of £511,257 for the 58 apprentices. This is an additional cost of £223,949 per annum.

- This additional cost would rise steadily as we took on more apprentices and may have a negative impact on our recruitment programme for the future as managers continue to stretch fewer resources to undertake more. If we were to recruit to the full 100, the additional costs would soar to £881,500 as opposed to £495,400. A difference of £386,100.

Managers will be asked to make significant budget cuts over the coming months, and it would seem reasonable to assume that costs associated with an apprentice may be seen as unnecessary in a service where front line services may be cut. Managers will need to retain highly

skilled and specialist staff to do more with less, and therefore will not see an apprentice as a viable option in the future if costs were to increase.

- Under the current pay rates, 38 apprentices will automatically go up to the national minimum wage in their second year (annual salary of £8,815 each) because they will be 19 years or older at this point and a further 12 will go up to the national minimum wage when they turn 19 during their second year of apprenticeship. The remaining 8 apprentices will be paid £115 per week (£3.29 per hour) from the beginning of the second year of their apprenticeship, which would represent an annual salary of £5,996 each. The approximate total annual salary cost for all 58 apprentices is £488,722.
- If all 58 apprentices were awarded the national minimum wage from their start date, all 58 would receive the national minimum wage in their second year as well as the first year. This would represent an annual salary of £8,815 for each and a total annual salary cost of £511,257 for the 58 apprentices (an additional £22,535 in costs approximately).

3.10 Potential advantages of awarding the national minimum wage to all our apprentices include:

- attracting more applicants
- improving Bristol City Council's image and reputation as a fair and attractive employer
- Increasing our competitiveness in the labour market

4. How Do We Compare:

- 4.1 The National Apprenticeship Service advises that the national average weekly salary for an NVQ level 2 Apprenticeship is £170 and that they would encourage employers to pay as close to that as possible, depending on the previous experience of the new recruit, as well as the going rate for the position. In their view, you can recruit a higher calibre of youngster if you are prepared to pay a decent wage.
- 4.2 North Somerset Council currently employs 16 Business Admin apprentices on weekly salaries of approximately £207 which then rise to approximately £233 per week once they've completed NVQ levels 2 and 3.

- 4.3 South Glos currently offer apprentices a weekly salary of £95 per week for a one year apprenticeship. In their view, this has not had any effect on the amount of apprenticeships that are offered by managers but does think that the number and level of candidates has increased significantly. In particular many more graduates are attracted.
- 4.4 BANES pay £100 per week for an apprenticeship up to 1 year in length.
- 4.5 Potential disadvantages of awarding the national minimum wage to all our apprentices include:
- the additional total costs of an apprenticeship could make it harder for Bristol City Council managers to create and justify apprenticeship opportunities.
 - the apprentices would no longer be entitled to claim travel reimbursement, which can amount to further savings of up to £130 per month (or an extra £32.50 per week) for some apprentices.
 - additional costs to the Council as a whole in the current economic climate could mean the programme ceases because of the extra financial burden
 - we could fail to address the balance of the ageing workforce and address our skills gaps if we discontinue the scheme or attract fewer apprentices
 - we could fail to address the diversity issues identified through our Workforce Strategy as we have been successful in achieving a 22% appointment rate for BME applicants.
 - Paying £95 per week training allowance with travelling costs paid for would not appear to have had a detrimental impact on the recruitment or quality of apprentices we are attracting into the organisation

5. Proposal

- 5.1 It is recommended that because of the additional financial pressure and the risk of fewer and fewer apprentices being taken on, (thus having a detrimental impact on the programme as a whole and having a negative impact on addressing the Workforce Strategy), that we do NOT recommend that all apprentices should receive the minimum wage and that the status quo should remain.

5.2 This proposal, if adopted, will be kept under review, should the national or local situation regarding youth employment opportunities change.

6. Other Options Considered

To do nothing.

7. Risk Assessment

7.1 the additional total costs of an apprenticeship could make it harder for Bristol City Council managers to create and justify apprenticeship opportunities.

- the apprentices would no longer be entitled to claim travel reimbursement, which can amount to further savings of up to £130 per month (or an extra £32.50 per week) for some apprentices.
- additional costs to the Council as a whole in this current economic climate
- the scheme may fail to continue to attract the NEET and young people from areas of deprivation in Bristol.

8. Equalities Impact Assessment

Not applicable

Legal and Resource Implications

Legal

The Report details the Council's position in relation to the wages paid to apprentices. The recommendation contained within the Report is in accordance with current employment law legislation.

Advice from Husinara Jones for Head of Legal Services

Financial

(a) Revenue:

There are no Finance implications associated with maintaining the status quo.

Any proposal to increase Apprentices pay to the national minimum wage are unbudgeted and would lead to cost increases of up to £387k as set out in the report.

Advice from Stephen Skinner, Finance Business Partner Resources, Transformation and Deputy Chief Executive

(b) Capital:

Not applicable

Land

Not applicable.

Personnel

As set out in the report.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985
Background Papers:**

None