

RESPONSE TO THE CONSULTATION ON THE NATIONAL MINIMUM WAGE

September 2014

About Save the Children

Save the Children works in 120 countries. We save children's lives. We fight for their rights. We help them fulfil their potential. Our work is framed by the UN Convention on the Rights of the Child (CRC) which the UK ratified in 1991. In the UK we campaign for an end to child poverty by 2020 and we campaign for measures that improve the life chances of children from low-income families. This document sets out evidence in response to the Low Pay Commission's (LPC) consultation on the national minimum wage. The evidence includes responses from parents about their experiences of the last year and their expectations of the coming year, as well as wider evidence from a survey of parents in March 2014. The response concentrates on questions 1, 2, 3, 4, 12 and 13.

1. What are your views on the outlook for the UK economy, including employment and unemployment levels, from now through to September 2016?

The real value of the minimum has fallen between 2007 and 2013ⁱ, while research from the Institute of Fiscal Studies has shown a drop in living standards in 2012-13 compared to 2009-10ⁱⁱ and shown how between 2008-09 and 2013-14 the average price level for low income in the bottom quintile increased by 7.1 points more than households in the top quintileⁱⁱⁱ. The economy is projected to grow by 2015/16^{iv}, but the outlook for children in low income families is not positive; two-thirds of poor children live in working households, the proportion of children living in poverty is projected to increase by 2020 and, without sustained action the government will miss the targets set out in the Child Poverty Act^v. Just over a quarter (27%) of parents surveyed by Save the Children in 2014¹ believed that families on low and middle incomes wouldn't benefit from an economic recovery, while only a fifth (20%) believed that an economic recovery would see the wages of people in low paid jobs increase. In *A Fair Start for Every Child* Save the Children detailed projections that suggested without significant changes by 2020/21 over 280,000 more children will be living in poor quality homes, over 150,000 more children will live in cold homes and 89,000 more children won't have enough fruit and vegetables^{vi}. The decline in the living standards of children in low income families will take sustained action to repair. While the NMW is not the only solution to child poverty, it's important that the LPC considers the impact of the past seven years on children in low income working families in any outlook for the future.

2. What has been your experience of wage growth in the UK during the last year and what do you forecast for the next twelve to eighteen months?

As part of the response to this consultation, nine parents from Save the Children's programmes were asked about their experience of the last year and their expectations of the coming year. Parents spoke about increased energy and food costs and in particular highlighted the cost of clothing for children as challenging to cover with their income in the past year. Clothing in particular had a dual impact on parents' income, it could be expensive to purchase, while young children grew out of clothing quickly. They explained how this meant they had to purchase expensive school clothing two, three or four

¹ Save the Children commissioned OnePoll to carry out a survey between February and March 2014 of 4,000 with parents from across the UK. For more details on the survey see *Save the Child (2014) A Fair Start for Every Child*. Available: http://www.savethechildren.org.uk/sites/default/files/images/A_Fair_Start_for_Every_Child.pdf

times a year. This was a challenge because to keep up with additional expenses they had to find other expenses to cut back on like food or energy costs. Working parents found this situation emotionally distressing because the idea of work, as providing at least a basic standard of living, was not matching their reality of work. The experience of the last year for some of the parents we spoke to was one of frustration, making difficult choices about which expenses to cut back on, emotional distress and at best managing to maintain the situation they were in or a worsening of their situation.

When asked about the coming year, the parents described the precarious nature of their situation and their fear that their earnings wouldn't be able to cover a combination of changing benefit eligibility, and rising prices. Parents worried that small changes in the cost of living over the next year could drive them out of employment because their income wouldn't be able to cover the cost of working. As one parent explained: "...rents are allowed to be put up with no limitations or warnings. Or transport costs go up and you can't afford the bus to work. Or you drive and there is no bus but you can't run your car because of cost and you have to give up work". Other parents worried that they wouldn't be able to continue deferring costs on home or car maintenance in the coming year. They feared having to take out loans to cover these costs, which would leave them with even less money to support their children. While some parents expect that in the next year things may get better for them, for others a small change in living costs could lead to unemployment or even tighter budgets.

Over the past year 16% (just over 1,200) of families Save the Children supported through its Eat Sleep Learn Play (ESLP) programme were working families. ESLP supports children living in severe poverty through crisis grants of household essentials like mattresses and washing machines. Among parents surveyed by Save the Children in 2014 just over a fifth (22%) said that every week they were short of money and over a quarter (27%) said they had nothing left in their household budgets to cut back on. The evidence from our programmes shows how some low income working families have been struggling to provide basic necessities for their children over the past year. While increases in the national minimum wage are welcome, it will take sustained increases in the wages of low income families in the future to ensure that all working parents can provide at least the basic necessities for their children.

3. What has been the impact of the National Minimum Wage (NMW), (for example, on employment, hours and profits), in particular over the last twelve months? Has this impact varied (for example, by sector, type and size of business or groups of workers (including women, ethnic minorities, migrant workers, disabled people, older workers, and those who are unqualified)), and if so how?

Evidence from Save the Children's programmes and wider research shows that parents on low incomes are struggling to provide the basics for their children. Parents completing Save the Children's survey in 2014 were asked whether their children ever had to 'go without' because they couldn't afford to purchase goods. A quarter (25%) said they couldn't afford treats for their children, over one tenth (14%) said they couldn't provide fresh fruit and vegetables for their children every day, a further tenth (11%) said they couldn't provide them with new shoes and another tenth (10%) said they couldn't afford to provide them with new clothes (10%). The survey shows how over the past year some parents in the UK have been struggling to provide their children with the basic necessities. Research from the Child Poverty Action Group and the Joseph Rowntree Foundation has shown that the cost of a child rose in 2014. The research showed that a couple both making the minimum wage and working full time are 18% short of the minimum cost of a child compared to 6% among a couple both working full time on the median wage. A lone parent making the minimum wage and working full time is 13% short of the minimum cost a child, and a lone parent making the median wage and working full time is still 9% short of the minimum cost of a child.^{vii} The decline in living standards over the past seven years has meant that despite the increase in the minimum wage last year, parents in low income families still face a struggle to provide for their children.

4. What do you estimate will be the impact of the 3 per cent increase in the adult rate of the NMW and 2 per cent increase in the youth and apprentice rates in October 2014?

Save the Children welcomes the increase of the NMW above the rate of inflation to £6.50 an hour. The research presented throughout this response shows the challenge that parents on low incomes face to support their children. Given that there are unlikely to be significant increases in the generosity of benefits for families with children, raising the wages of low income working parents will be an important part of a strategy to end child poverty by 2020. While the NMW is not the only solution to child poverty, continued increases above the rate of inflation can have a positive impact on the lives of children living in low income working families.

12. At what level should each of the rates of minimum wage (for adults, 16-17 year olds, 18-20 year olds, apprentices, and the accommodation offset) be set in October 2015?

Save the Children is keen to see further above-inflation increases in the NMW, given the evidence set out above. . This could help improve the living standards of low income working families and have a positive impact on children living in poverty.

13. Do you have any other views or evidence about the operation and impact of the National Minimum Wage?

In its report *More than a Minimum*^{viii} the Resolution Foundation sets out a number of recommendations for bringing more clarity to the NMW in the short term. Save the Children would support a review of the possibility of setting out an estimate of how long it will take to return the value lost to the NMW over the past several years and of the LPC routinely setting out preliminary intentions for subsequent years. These changes could help provide greater certainty for both businesses and low income families in what they can expect from the NMW in the long term and help both plan better about their future.

ⁱ Low Pay Commission (2014) National Minimum Wage: Low Pay Commission Report 2014. Available:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/288847/The_National_Minimum_Wage_LPC_Report_2014.pdf

ⁱⁱ Institute for Fiscal Studies (2014) Living standards, poverty and inequality in the UK: 2014. Available: <http://www.ifs.org.uk/publications/7274>

ⁱⁱⁱ Institute for Fiscal Studies (2014) IFS Green Budget 2014. Available: <http://www.ifs.org.uk/budgets/gb2014/gb2014.pdf>

^{iv} Office for Budget Responsibility (2014) Economic and fiscal outlook: March 2014. Available: <http://cdn.budgetresponsibility.org.uk/37839-OBR-Cm-8820-accessible-web-v2.pdf>

^v Save the Children (2014) A Fair Start for Every Child. Available:

http://www.savethechildren.org.uk/sites/default/files/images/A_Fair_Start_for_Every_Child.pdf

^{vi} Ibid.

^{vii} Child Poverty Action Group (2014) The Cost of a Child in 2014. Available: http://www.cpag.org.uk/sites/default/files/Cost_of_a_child_2014.pdf

^{viii} Resolution Foundation (2014) More than a minimum: The Resolution Foundation review of the future of the national minimum wage: the final report. Available: http://www.resolutionfoundation.org/wp-content/uploads/2014/03/More_than_a_minimum.pdf