Uprating of the National Minimum Wage

Introduction

Each year the Low Pay Commission report to the government, proposing changes in the rates of the National Minimum Wage[1]. The government normally enact the recommendations of the commission, and any changes are made the following October.

Increases in the National Minimum Wage can help low income working families to keep up with rapidly rising prices. Increases in the minimum wage are particularly important at present as a result of the government's recent decision to impose a limit on increases in benefit rates of just 1% per year.

However, by reducing expenditure on benefits and tax credits, and increased income tax and national insurance receipt, increases in the Minimum Wage also help to control public spending. This can help to free up much needed resources to reinvest in the lowest income working families.

This briefing considers how the Minimum Wage has changed over time, with a particular focus in changes in the value of the minimum wage since 2010, and also looks at the potential savings in public expenditure which could be achieved through uprating with costs of living.

Key findings:

- Since 2010, the adult rate of the National Minimum Wage has fallen in real terms by 50p per hour. This has reduced it to its lowest rate in the last decade.

- This has been driven by rapid increases in prices on key essentials – since 2010 the price of food has gone up twice as fast as the minimum wage, and the price of utilities more than three times as fast.

- This year's cash rise of 12p per hour will save the exchequer an estimated £180 million per year compared to a freeze – however the public purse is losing as much as £760 million per year from the failure of the minimum wage to keep pace with costs of living.

- This includes losses of £300 million per year in higher benefit payments to minimum wage workers, and £460 million of lost taxes.

How has the National Minimum Wage changed in recent years?

When the Minimum Wage was introduced in 1999, the hourly rates were £3.60 (£5.47 in current prices) for workers aged 21and over and £3.00 (£4.73) for workers aged 18-20 years old. They peaked in 2009/10 at £6.81 and £5.67 (in

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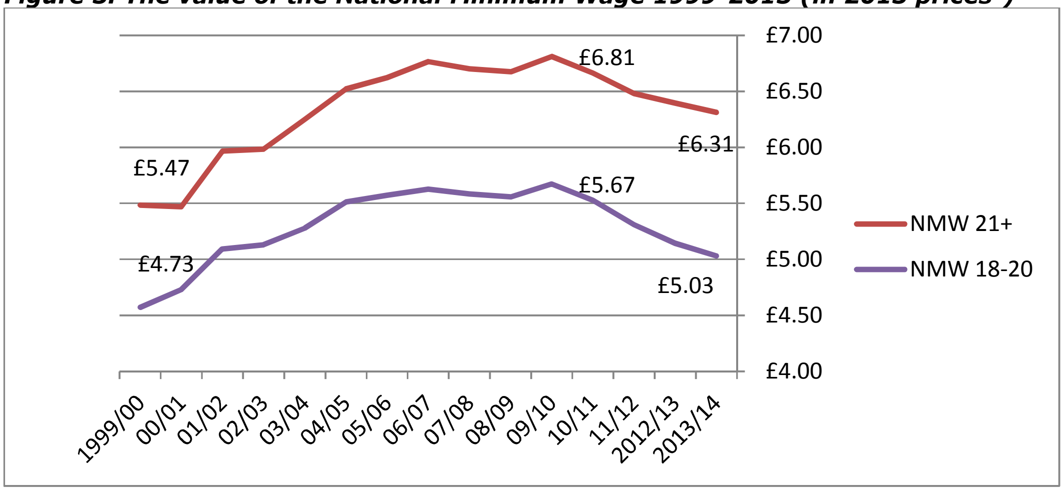
[1] The Low Pay Commission (LPC) was established as an independent body as a result of the National Minimum Wage Act 1998 to advise the Government about the National Minimum Wage

2013 prices) respectively. However, since then, the real terms value of the minimum wage has fallen substantially – the adult rate has fallen by 50p an hour, and the 18-20 rate by 64p per hour.

The value of the National Minimum Wage (18-20 and 21+ rates) between 1999 and the present day (in 2013 prices), is shown in figure 3 below.

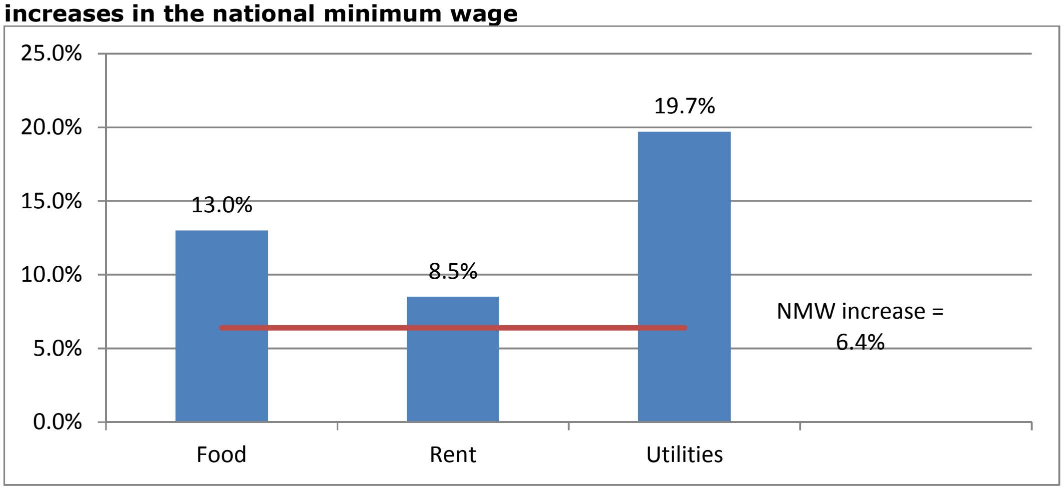
Figure 3. The value of the National Minimum Wage 1999-2013 (in 2013 prices[2])



The 50p fall in the value of the minimum wage since 2010 has taken it to *its lowest rate for the last decade* (it was last lower in 2003/04 when it was worth £6.25 in today's prices).

The reduced "real" value of the minimum wage is the result of rapid increases in prices on some key costs of living for families. The following table compares changes in the prices of different basic necessities, compared to increases in the minimum wage over the same period.

Figure 4: Increases in costs of food, rent and utilities 2010-2013[3], compared to increases in the national minimum wage



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[2] *Prices uprated with historical RPI rates for each year to October (year to August in 2013)*

[3] http://www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/june-2013/consumer-price-inflation-reference-tables.xls *(table 46b)*

As can be seen in figure 4 above, between 2010 and 2013, whilst the cash value of the national minimum wage (adult rate) has increased by 6.4%, food prices have gone up twice as fast, and utilities more than three times as fast.

How much does increasing the minimum wage save the Treasury?

Failure to increase the National Minimum Wage with costs of living has a direct financial cost to the Exchequer. This is the result of two factors (1) lower income tax and NIC receipts and (2) increased benefit and tax credit payments.

In October 2013 the National Minimum Wage (for workers aged 21 and over) is increased by 12p per hour from £6.19 to £6.31[4]. In their annual report, the Low Pay Commission[5] (based on figures provided by the Treasury) made the following estimate of the savings that this would produce for the Treasury:

Table 1.Estimated £ million Exchequer yield and savings from the increase in the minimum wage to £6.31 in October 2013 (12p increase)

Revenue source	Annual savings to Treasury (£millions)
Income Tax	£70
National Insurance Contributions	£40
Working Tax Credit	£30
Child Tax Credit	£16
Income Support	£6
Housing Benefit	£17
Council Tax Benefit[1]	£4
Total	£183

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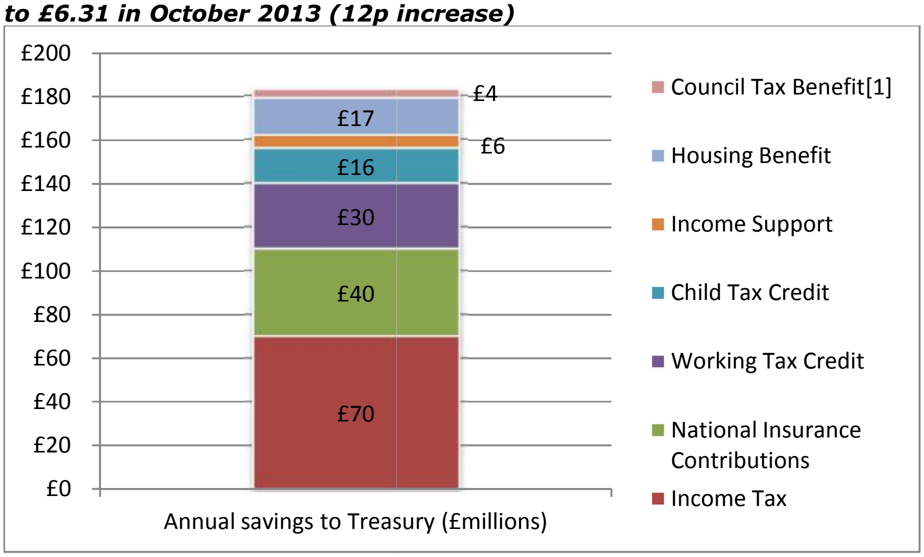

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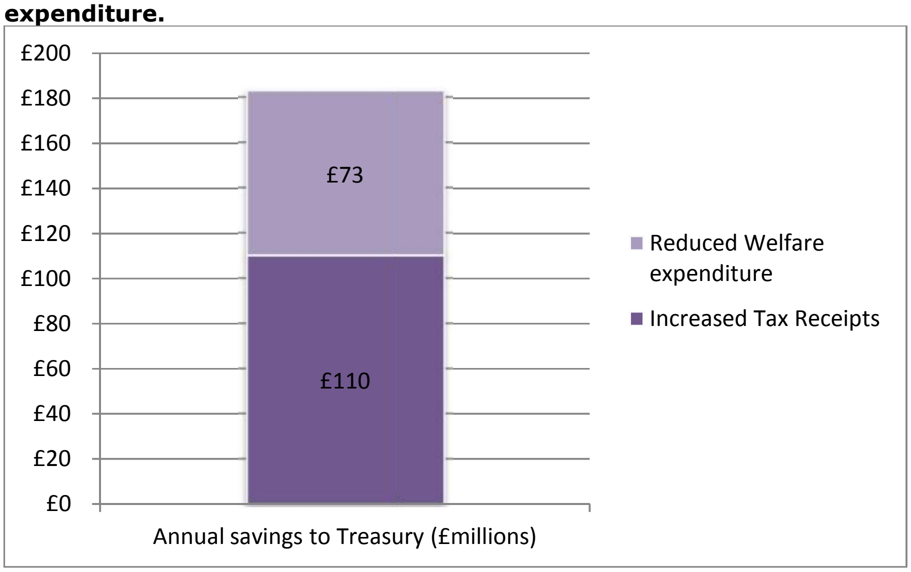
[4] *The development rate for workers aged 18-20, and the under 18 rate, rose by 5p and 4p respectively*

[5] *Low Pay Commission (2013) "Low Pay Commission Report 2013" p170 http://www.lowpay.gov.uk/lowpay/report/pdf/9305-BIS-Low_Pay-Accessible6.pdf*

The breakdown of this into increased tax yield and reduced benefit and tax credit expenditure is as follows:

Figure 2. fig 1 broken down into increased tax yields and reduced benefit and tax credit expenditure.



A 12p increase in the National Minimum Wage this year saves the exchequer an estimated £183 million per year compared to a freeze.

However, had the National Minimum Wage been increased between 2010 and 2013 at the rate of inflation, it would now be 50p per hour higher than it is at present. Based on the exchequer yield and savings rates assumed in Table 1, the annual cost to the exchequer of failing to increase the minimum wage by inflation between 2010 and 2013 equates to around £763 million per year, including £458 million less received in tax receipts and £304 million in increased benefits and tax credit expenditure.

Conclusion

The minimum wage has already been cut in real terms by around 50p an hour since 2010, taking it to its lowest rate for the last decade. This means that working families on the very lowest incomes see their pay cover less and less of their food and utility bills.

However, this not only affects the incomes of families living on low pay, and also costs the public purse.

This is money which could be reinvested in low income working families (and into the economy,) including by using the savings to address childcare costs and the costs of school meals for low income working families.

1. **Additional help with childcare costs for the lowest income working families.** The government has announced extra help with childcare costs

following the introduction of the new benefit system "Universal Credit", meaning that working families can get up to 85% of their childcare costs covered through the benefits system. But, working families on the lowest incomes (with one or more earners earning less than the income tax threshold) will not be entitled to this additional support.

The government mustn't allow a two tier system for childcare to develop – savings from a higher minimum wage could be spent to ensure the lowest income working families must get this help too.

2. **Introduce free school meals for all children living in poverty – including those in working families**. As highlighted through our "Fair and Square" campaign, many children of working parents aren't entitled to receive Free School Meals, no matter how little they earn. As a result, 700,000 school aged children living in poverty miss out on this vital support.

   The government has recently announced universal Free School Meals for 5,6 and 7 year olds will be introduced in 2014. This will reduce the number of children in poverty not eligible for a meal by around 200,000, however, there will still be half a million children in poverty not eligible for a free meal.

   Savings from increases in the minimum wage could be invested in further provision of free school meals to children in low income working families.

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