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Scotland's Money Charity

RESPONSE

LOW PAY COMMISSION CONSULTATION ON THE NATIONAL LIVING WAGE

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About Money Advice Scotland

Money Advice Scotland is the national umbrella organisation in Scotland which promotes and champions financial inclusion and the development of free, independent, impartial, confidential money advice.

A registered charity, Money Advice Scotland was set up in 1989 and provides the following services to its members:

- Standards and quality framework development
- Qualifications
- Training
- Financial Capability programme
- Research and policy input
- Annual Conference
- Seminars and other events
- Publications
- Consultancy
- Organisational audit

In terms of standards and quality framework development, Money Advice Scotland has been at the forefront of raising standards in Scotland and beyond. The organisation was involved in developing a framework which underpinned the Debt Arrangement Scheme Regulations, and gave assurance that the advice being given to clients was of quality. The framework which was in place until 2011, the casework of which was assessed by competent advisers who were also approved advisers under the Statutory Debt Arrangement scheme. Due to a change in government policy the scheme was changed.

Money Advice Scotland is an approved Centre for the delivery of Scottish Vocational Qualifications in Advice and Guidance. It is currently working with the Institute of Money Advisers in England and Wales and has developed the Scottish version of the Certificate in Money Advice Practice. Money Advice Scotland is also working closely with the Money Advice Service in terms of the development of a national money advice quality framework.

With regard to training of money advisers, the organisation has been using standards to underpin its training for almost 20 years. In more recent times, the Scottish Government in conjunction with the advice sector has developed the Scottish National Standards in Information and Advice (SNS) and Money Advice Scotland was a pivotal player in their development. These standards are enshrined in current training and also help shape the Certificate in Money Advice Practice, together with the National Occupational Standards in Advice and Guidance.

Since November 2014, Money Advice Scotland has been responsible for the roll-out of the Scottish Government's Financial Capability programme which administers financial education through a combination of workshops, training and e-learning. The necessity for financial education of individuals experiencing debt problems is recognised in the Bankruptcy and Debt Advice (Scotland) Act 2014.

In January 2015, Money Advice Scotland also launched the Scottish Financial Health Service helpline in collaboration with the Scottish Government.

Executive Summary

- After a sustained period of slow wage growth and escalating living costs, the announcement of a National Living Wage is to be welcomed.
- More clarity is required in publication of the changes to ensure that employers, employees and money advisers are aware that the National Living Wage is mandatory for all workers over the age of 25.
- Following on from this point, consideration should be given to extending the National Living Wage to the under 25s.
- In our experience, poverty does not discriminate by age and the omission of the under 25s to the National Living Wage brings extra pressure to a group already unable to access crucial sources of support such as working tax credit and housing benefit.
- The National Living Wage must be reviewed in the context of wholesale welfare reform and implemented on a 'no detriment' basis so that people do not lose out through reductions in benefits and tax credits.
- The implementation of the National Living Wage should form part of a wider strategy into addressing in work poverty in light of statistics that indicate that employment is no longer a protection against poverty.
- The establishment of a new minimum income standard should be applied across all UK Government policy.
- This has particular relevance to the operation of the Common Financial Statement – any gains that a worker secures via the National Living Wage should not be eroded by increased contributions to debt repayment.
- In this context, the move towards a National Living Wage of £9 per hour by 2020 should coincide with adjustments to the Common Financial Statement to ensure that anyone going through this process is able to sustain an adequate standard of living.

Introduction

Money Advice Scotland welcomes the opportunity to respond to the Low Pay Commission's consultation on the National Living Wage. The announcement comes at a time of stagnating wage levels. Despite the return of GDP growth, real median household income remains 2.4 per cent below the 2009-10 peak.[1]

With that in mind, any proposal that aims to improve the living standards of the lowest paid workers is to be welcomed. However, the National Living Wage must be considered as part of the wider context of in-work poverty and the comprehensive reform of the welfare system to ascertain whether the poorest workers will be better off.

A genuine living wage?

Following the announcement in the Chancellor's Summer Budget, several commentators made the point that the National Living Wage is something of a misnomer. The Child Poverty Action Group described the National Living Wage as a 'higher minimum wage.' The plans effectively introduce a third term to a crowded field: the National Living Wage will sit alongside the National Minimum Wage, but is distinct to the similarly titled and longer established Living Wage.

Money Advice Scotland is of the view that more clarity is required within the debate on the various statutory minimum pay rates to ensure that low-paid workers receive the rate of pay that they are entitled to.

Indeed, when Money Advice Scotland initially consulted with its own advisers, it was deemed by some that the National Living Wage was to remain a voluntary opt-in system. If this is the experience of established money advisers, then it follows that low-paid workers may be equally confused by the similarity of terms as well as the previous association that the Living Wage was not mandatory.

In addition, Money Advice Scotland is concerned that the National Living Wage will commence at a rate of £7.20, below the established and accepted rate set by the Living Wage Foundation of £7.85. Whilst we recognise the requirement for employers to be provided with a transitional period to phase in the new arrangements, Money Advice Scotland is concerned that this undermines the existing rate that takes into account the cost of living.

Money Advice Scotland is aware that the Department of Business Innovation Skills has recently adopted a 'name and shame approach' to employers who fail to pay the minimum wage. Nonetheless, in the last five years, only two employers were prosecuted for failing to pay the minimum wage.[2] As part of the move to the National Living Wage, Money Advice Scotland seeks assurances that the new higher rate of pay will be enforced robustly to ensure that low paid workers receive the wage to which they are entitled.

[1] Households below average income 1994/95 – 2013/14, 25 June 2015
https://www.gov.uk/government/statistics/households-below-average-income-19941995-to-20132014
[2] HC Deb 6 May 2014 c110W
http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140506/text/140506w0004.htm#140506w0004.htm_spnew45

Recommendation: Money Advice Scotland recommends that the implementation of the National Living Wage is complemented by a high profile campaign aimed at members of the public and money advisers to underline that the new rate is compulsory to mitigate the prospects of non-compliance from unscrupulous employers. The onset of the new National Living Wage is also an opportunity to toughen up existing enforcement of statutory minimum wage rates. Money Advice Scotland is willing and able to play a part in the drive to promote awareness of the change to its members and the wider sector.

A living wage for over 25s only

At present, the full rate National Minimum Wage (NMW) applies to workers aged 21 and over. Money Advice Scotland is concerned that the introduction of the National Living Wage will open up a still greater gap, with the new rate applying to workers over the age of 25 only. The Living Wage Foundation report that 2 million people under 25 will lose out as a result of the age cap.

A low-paid worker remains a low-paid worker whether they are aged over 25 or under 25. In this sense, the National Living Wage makes a distinction where there is no difference.

What's more, research from Citizens Advice shows that young people are already more likely to turn to expensive forms of credit such as pay day loans to manage debt.[3] As well as reaffirming the need for financial capability education, this research reiterates the risk that under 25s on lower incomes than those individuals who are eligible for the new National Living Wage may turn to more expensive forms of credit to meet the cost of living. Further, under 25s currently cannot claim for Working Tax Credit, an essential source of support for some of the lowest paid workers.

As part of its own remit, Money Advice Scotland recognises that financial education and access to affordable credit is not restricted to people of a defined age. Money Advice Scotland promotes the case for financial education of young people as a matter of prevention rather than cure. In doing so, we do not set an arbitrary age cap of 25 and instead acknowledge that financial health and wellbeing is relevant to adults and children of all ages.

Just as concerns about financial wellbeing are not unique to people aged over 25, nor should the National Living Wage.

Recommendation: Money Advice Scotland calls on the Low Pay Commission to recognise that poverty is indiscriminate and can impact on people of any age. With that in mind, it is our view that the implementation of the National Minimum Wage should not be restricted to over 25s only.

[3] Citizens Advice, *Generation Y turning to high-cost credit*, 16 October 2014 https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/generation-y-turning-to-high-cost-credit/

The National Living Wage and welfare reform

As outlined in our opening comments, the planned implementation of the National Living Wage comes amidst the well-documented tumult of welfare reform. The transition to Universal Credit in and of itself already presents major challenges to the financially excluded in terms of IT literacy and budgeting concerns brought by changes to payment schedule. In our experience, the move toward online-only applications has vastly increased the ever-stretched workloads of money advisers providing assistance to vulnerable clients on the frontline. This has major implications for Money Advice Scotland, its members and the vulnerable people it supports.

As part of its aim of improving the overall financial wellbeing of the people of Scotland, Money Advice Scotland's Financial Capability Programme conducts a series of workshops for the provision of free information on how best to manage finance and avoid crisis situations. Across its workshops from January to July 2015, the subject of welfare reform remained the most prevalent and recurring problem issue raised by money advisers. The introduction of the National Living Wage must be reviewed in this context.

In terms of the overall package of tax and benefit policy changes, the Institute for Fiscal Studies (IFS) estimate that the average loss for working age households eligible for benefits and tax credits is estimated at £2,070 per year.[4] In the coming months, Money Advice Scotland will consult with its members in anticipation of these changes. At face value, however, this represents a loss of £39.80 each week. This represents 67 per cent of the average family's food bill according to the latest ONS figures on household expenditure.[5] At a time when the Trussell Trust report that 117,689 people in Scotland used food banks in the last year, this change appears particularly short-sighted.[6]

What's more, the IFS report that in the case of those who benefit from the National Living Wage, part of the increase in earnings is lost due to higher tax contributions and reductions in tax credits.

Money Advice Scotland is concerned that the increase brought by the National Living Wage will be little consolation to families facing severe cuts in tax credits and other benefits. The welfare system remains a complex prospect for people to negotiate at the best of times. Irrespective of the increased income from the National Living Wage, this will mean face tough budgeting decisions for individuals and families alike. During periods of substantial change, the provision of financial education and money advice is ever more important.

Recommendation: Money Advice Scotland is of the view that the National Living Wage must be implemented on a 'no detriment' basis – working people should not find themselves worse off under the changes. A full and transparent impact assessment should be published by the Low Pay Commission with the view to establishing an accurate picture of the cumulative effect of the National Living Wage in the context of wide-ranging welfare reform.

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[4] Institute for Fiscal Studies, Briefing Note BN175, September 2015 http://www.ifs.org.uk/uploads/publications/bns/BN175.pdf

[5] Office for National Statistics, Family Spending 2014, 2 December 2014 http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2014-edition/index.html

[6] The Trussell Trust, Foodbank Statistics with regional Breakdown, http://www.trusselltrust.org/stats

In work poverty

Recent research by the Scottish Government indicates that employment is no longer a protection against poverty. In 2013-14, more than half (56 per cent) of children in poverty lived in working households.[7] In the last year, the median weekly wage in the UK for full-time employees rose by just 0.1 per cent – the lowest level of growth since ASHE records began in 1997.[8] The Office for National Statistics recently reported that 3 in 10 people remain in poverty despite finding work.[9]

Money Advice Scotland closely monitors the nature of calls to its helpline and it has become increasingly apparent that the majority of those in need of money and debt advice are people in work, rather than the unemployed.

In this context, any analysis of the National Living Wage must be considered in terms of how effective the measure will be in reducing in work poverty. Even under the planned changes, the Joseph Rowntree Foundation calculate that a lone parent with one child on the NLW will have only 71 per cent of the adequate income needed. This marks a continuing decline over a ten year period. By 2020, a person in this these circumstances will be £90 short of what they need each and every week.[10]

Recommendation: Money Advice Scotland is of the view that the implementation of the National Living Wage must be part of a wider strategy to combat the prevalence of in work poverty. If the proposal is to be a true commitment to a minimum income standard, it follows that any increase in wages must not be undone by reductions to other benefits.

Common Financial Statement

The Common Financial Statement (CFS) is a budgeting tool used by advisers and third party agencies, many of whom will be members of Money Advice Scotland, to make debt repayments to creditors on behalf of clients. Whilst the CFS sets down trigger figures for expenditure, it is not used to provide guidance on minimum necessary spending levels or to determine a minimum required income standard.[11] Money advisers can refer to the Joseph Rowntree Foundation Minimum Income Standard tool, but this is not a compulsory condition. This scenario often means that debtors are alleviated of the anxiety of debt, but face the equally daunting prospect of managing budgets on negligible disposable incomes. In the experience of Money Advice Scotland and its consultants, on occasion this can have the effect of taking a person out of debt and into poverty.

The introduction of the National Living Wage will set a new benchmark for minimum income standard in legislation. Money Advice Scotland observes a contradiction between on one hand acknowledging that there is a minimum required income, yet simultaneously insisting

[7] Scottish Government, Poverty Briefing 2015 http://www.gov.scot/Topics/Statistics/Browse/Social-Welfare/IncomePoverty/povertysept2015
[8] ASHE survey, 19 November 2014 http://www.ons.gov.uk/ons/rel/ashe/annual-survey-of-hours-and-earnings/2014-provisional-results/stb-ashe-statistical-bulletin-2014.html
[9] Office for National Statistics, Does getting a job always lead to people leaving poverty?, 6 July 2015 http://visual.ons.gov.uk/in-work-poverty/
[10] Joseph Rowntree Foundation, *Will the 2015 Summer Budget improve living standards in 2020?,* 7 September 2015 https://www.jrf.org.uk/report/will-2015-summer-budget-improve-living-standards-2020
[11] Money Advice Trust, CFS Briefing, December 2014 http://www.cfs.moneyadvicetrust.org/faqs.asp?page_id=30

that debtors meet repayment obligations that effectively leave them with less income than they need to live on. Money Advice Scotland is of the view that as a mark of consistency and fairness, this new acceptance of a minimum income standard should extend to all aspects of Government policymaking.

Recommendation: Money Advice Scotland is seeking assurances that the move towards a National Living Wage of £9 per hour by 2020 is matched by adjustments to the Common Financial Statement – any gains from the National Living Wage must not be eroded by increased contributions to debt repayment. The acknowledgement by the UK Government of a minimum income standard must be reflected throughout its wider policy – and with specific reference to the work of Money Advice Scotland – particularly in terms of its approach to the CFS and the difficulties currently encountered by certain debtors.