

National Minimum Wage (2014): Consultation Response to the Low Pay Commission from the Northern Ireland Council for Voluntary Action (NICVA)

Background

1. NICVA (Northern Ireland Council for Voluntary Action) is the umbrella body for the voluntary and community sector in Northern Ireland. It provides over 1,000 members with information, advice, training and support services on a wide range of issues, together with representation for the sector as a whole.
2. NICVA works to achieve progressive social change, based on equality and equity, working through a community development approach, to empower local communities to pursue their own needs and agendas.
3. NICVA welcomes the opportunity to respond to this consultation. We also thank groups in the voluntary and community sector in Northern Ireland for their input.¹

Introduction

4. It is well documented that the NMW has been successful in reducing extreme low pay, and that it has not had an adverse effect on employment levels. However, low pay remains a major problem. 5.24 million employees earn less than the Living Wage (an estimate of the hourly rate which would provide a full-time worker with a basic, but adequate, standard of living) which currently stands at £7.65 outside of London.² As a region of the UK, Northern Ireland has the highest percentage of people in employment earning below the Living Wage.³
5. Average weekly earnings have not grown over 2014 and by less than 1% in the last 12 months. Total pay experienced its first year-on-year decline in the last 5 years during 2014. Northern Ireland remains the lowest paid region of the UK, in terms of average weekly earnings and hourly earnings.⁴

6. In this context NICVA commissioned Oxford Economics to model the economic impact of raising the NMW to the Living Wage level in Northern Ireland.⁵ The report uses figures from 2012, which is the most recent year for which all the necessary data is available. A copy of the report is enclosed for the consideration of the LPC. The report is also available online at <http://www.nicva.org/resource/economic-analysis-living-wage-northern-ireland>.

¹ In particular, we would like to thank all of those who attended our Living Wage research launch event at Belfast City Hall on 9 September 2014.

² Markit Economics, *Living Wage Research for KPMG 2013* p3. Figures at April 2013. Source: Annual Survey of Hours and Earnings.

³ *Ibid*

⁴ ONS, Average Weekly Earnings (EARN05) and Annual Survey of Hours and Earnings.

⁵ NICVA (2014), *An Economic Analysis of the Living Wage in Northern Ireland*. Source: Annual Survey of Hours and Earnings.

A Living Wage in Northern Ireland: Key Findings

7. The report estimated the effect of increasing the pay of employees below the Living Wage in April 2012 to the then Living Wage.⁶ The economic impact of this uplift was estimated through a sensitivity scenario in which employment loss effects were accounted for.⁷
8. In 2012, raising the NMW to the Living Wage would have resulted in:⁸
 - **£218 million increase in the gross wages** of those employees, which would have positive effects provided through boosted consumption.
 - **£129 million additional spending**, translating into indirect and induced increases in GVA and jobs.⁹
 - **£82 million increase in Northern Ireland's GVA.**
 - **Net job creation would total 1,200** through the impact on the whole supply chain.
 - **£87 million annual savings** for the UK Treasury.¹⁰

Recommendations

9. Since its introduction the National Minimum Wage has, on average, risen faster than inflation and average earnings. This has been without a significant employment effect and has been to a marginal benefit of low paid workers. However, to provide a reasonable standard of living and to reduce the regrettably high levels of poverty for households that are in work raising the minimum wage to the Living Wage level needs to be given serious consideration.
10. We believe that there remains scope to increase the National Minimum Wage to a level that is based upon a serious body of empirical research on the minimum income standard (MIS) required by households to afford essential items that will provide a socially acceptable standard of living.¹¹ The NMW currently falls 17.5% below this level (the 2013 LW is £7.65 compared to a 2013 NMW adult rate of £6.31).
11. However, we remain mindful that such an increase should be gradual to allow employers to adjust without serious “shock” to their balance sheets and working practices.
12. We advocate that a statutory Living Wage to be set as the NMW rate is realistic and attainable. However, we are cautious that employers will require time to adjust to a higher NWM and therefore a long-term incremental increase from the base rate of NMW to the Living Wage is advocated.

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⁶ £7.20 outside London.

⁷ The sensitivity scenario accounted for a reduction in employment as constituted by a conservative 0.05 elasticity effect.

⁸ All figures given are in 2014 real terms.

⁹ Based on family spending survey data and input-output tables for the Northern Ireland supply chain.

¹⁰ An increase in the Minimum Wage would reduce the burden of in-work benefit transfers to low-paid workers. The tax paid to the exchequer from these individuals would also increase.

¹¹ Centre for Research in Social Policy, Loughborough University.