

Norwich City Council Response to the Low Pay Commission's consultation on the National Minimum Wage

6. What are your views on the outlook for the UK economy, including employment and unemployment levels, for the period October 2014-September 2015?

The outlook remains fairly bleak compared to the pre-recessionary period but is more positive than it has been since 2008. Business confidence is slowly improving. If sterling remains weak then our export situation may improve, but this is also dependent on global trading conditions which may act as a restraint on growth. Household spending is likely to continue to rise at the expense of savings, due in part to low interest rates which makes the cost of borrowing lower. However, domestic markets are unlikely to show a large improvement if wages continue to stagnate. It is likely that employment levels will continue to rise but much of the increase, as we have already seen, will be in low wage sectors and occupations where part-time and insecure work is a larger part of the picture rather than well paid, permanent intermediate level jobs. Long term unemployment will continue to be high. It is very likely that young people will also continue to be seriously affected by lack of work.

7. Is there anything further you would like to add on the economic context?

Whilst national headline figures on the beginnings of economic growth go some way to improving market confidence, they hide a complex tapestry of high and low employment areas and differing levels of important factors such as high street confidence. In addition, changes to the benefit system over the next two years will mean that those furthest away from the labour market will suffer significant impacts whilst often remaining entirely outside of the reach of the early benefits of any economic recovery.

8. What has been the impact of the National Minimum Wage?

In macro economic terms there is consensus that the NMW has not had an impact on the amount of employment in the UK. Extra costs to employers have been met through increased productivity and squeezing pay gaps. It can also be assumed that it has had a positive impact upon workers who, without a set NMW, would be earning less. However, since its inception the NMW has been set at a conservative level under governments of all political persuasions. In addition, it is possible that increasing job insecurity at the bottom of the income scale undermines some of the value of an income guarantee as individuals find themselves moving repeatedly between low paid short-term work and unemployment benefits.

9. Has this impact varied by sector, and if so how?

Wage bills in sectors such as finance and construction rose by approximately 1% but sectors employing large numbers of low paid employees such as retail and hospitality the costs were 5 or 6 times higher¹.

The fact that the full adult NMW rate only applies to those aged 21 is very likely to encourage employers in these sectors to employ young people at the expense of older workers. We have

¹ *Fifteen years later: A discussion paper on the future of the UK National Minimum Wage and Low Pay Commission*, Resolution Foundation (2013).

some anecdotal evidence that this is happening in Norwich in the entertainment sector (bars and night clubs) and, to a lesser extent, in hotels & catering.

10. Has this impact varied by the type and size of business, and if so how?

We have no evidence to submit on this question.

11. What has been the impact of the minimum wage on the labour market position of particular groups of workers, including:

Women

Ethnic minorities

Migrant workers

Disabled people

Older workers

Those with no qualifications

We have no evidence to submit on this question.

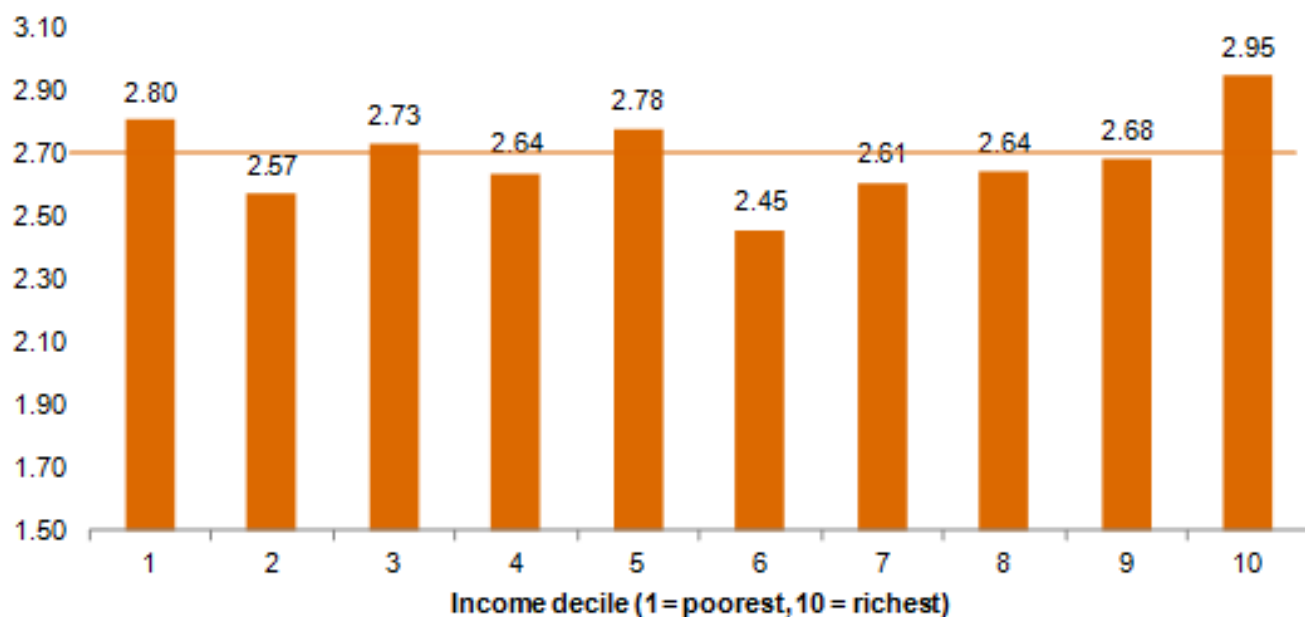
12. At what level should the adult minimum wage rate be set in October 2014?

In absolute terms and when minimum wages are taken as a mean value of average gross monthly earnings, the UK compares unfavourably to its wealthy EU counterparts² and this is only made viable through Tax Credits which act as a subsidy to low paying employers. This and evidence relating to the baseline remuneration which would afford a 'Living Wage' suggests that the current levels for adults of £6.19 is too low³. In addition, we know that those at the bottom of the income scale are disproportionately affected by food and fuel inflation (please see figure 1 below). Therefore it might be argued that in order to ensure that work is a route out of poverty - consistent with a political goal of 'making work pay' - any minimum wage guarantee will need to keep pace with the cost of these high inflation items.

² *Minimum Wage Statistics*, Eurostat (July 2013). Available at: http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Minimum_wage_statistics and viewed on 10th September 2013.

³ Available at <http://www.livingwage.org.uk/>.

Figure 1: Inflation rate by income decile, (% change in year to October 2012)



Source: Price Waterhouse Coopers⁴

The Minimum Wage and Affordability of Private Rented Accommodation

Table 1 – Income based on a 37 hour week

	Minimum Wage £	Living Wage £
Rate per hour	6.31 ⁵	7.45
Gross wage	233.47	275.65
Tax	10.34	19
NI	10.13	15
Net income	213	242

Table 2 – Eligibility for Housing Benefit if on a Minimum Wage

Accommodation Type⁶	Market Rent £	LHA Rent⁷ £	Income threshold £	Possible entitlement to benefit Y / N

⁴ *Inflation hits richest and poorest hardest*, PWC (2012). Available online at: http://pwc.blogs.com/economics_in_business/2012/11/inflation-hits-richest-and-poorest-hardest.html. Accessed 17th September 2013.

⁵ Rate for people aged 21+, effective 1st October

⁶ Source: Rightmove – snapshot survey of private sector rents, July 2012

⁷ Calculator to assess eligibility for housing benefit

Room	£84.83	58.50	£168.24	No
Studio	£90.63	92.30	£214.39	Y but borderline
1 Bed	£112.21	92.30	£214.39	Y but borderline

Table 3 – Eligibility for Housing Benefit if on a Living Wage

Accommodation Type	Market Rent £	LHA Rent £	Income threshold £	Possible entitlement to benefit? Yes / No
Room	£84.83	58.50	£168.24	No
Studio	£90.63	92.30	£214.39	No
1 Bed	£112.21	92.30	£214.39	No

Table 4 – Affordability Ratio

Accommodation Type	Market Rent £	Min Wage		Living Wage	
		Gross earnings	Net earnings	Gross earnings	Net earnings
Room	£84.83	36.33%	39.82%	33.34%	35%
Studio	£90.63	38.82%	42.55%	35.62%	37.45%
1 Bed	£112.21	48.06%	52.68%	44.10%	46.36%

Definitions of affordability

1. The Strategic Housing Market Assessment Guidance (2007) states:

*A household can be considered able to afford market house renting in cases where the rent payable was up to 25 per cent of their **gross** household income. The 'Rent Payable' figure is defined as the entire rent due, even if it is partially or entirely met by housing benefit. Other housing-related costs, such as council tax and utility bills should not be included. As in the case of assessing home ownership, housing market partnerships will need to consider that what is affordable may vary (e.g. **a higher percentage may be affordable for someone on a higher income**). Local circumstances could justify a figure other than 25 per cent of gross household income being used*

2. *The National Housing Federation defines affordability as a 25 per cent rent-to-income ratio for new tenant households in work (NHF, 1999). In using this ratio, it is assumed that the allocation to social housing will ensure an adequate housing standard.*
3. *Conventionally, 25 per cent of net income was accepted as the maximum rent that should be regarded as affordable, irrespective of the type of household and its total budget or other costs. This standard originated in the 19th century studies of household budgets and was*

based more upon notions of common sense than on scientifically developed expertise (Malpass and Murie, 1999).

4. *In both Canada and the USA, a 30 per cent ratio is used extensively (Quigley and Raphael, 2004; Gabriel et al., 2005; Newman, 2007; Jewkes and Delgadillo, 2010). In Australia, benchmark ratios are set at 25 per cent for public renters and 30 per cent for private renters (Hulse, 2007)*

Extract from **Market-pegged social rents & local income distributions** (Cambridge Centre for Housing & Planning Research), July 2011

Conclusions on housing affordability for those on low incomes

1. Based on all measures of affordability, single person accommodation in the private rented sector is unaffordable for someone earning the minimum wage, albeit they **may** be eligible for some housing benefit if living in one-bedroom accommodation.
2. Paying the Living Wage would reduce the burden on the state. A single person would not be eligible for any housing benefit support. However, rent would still account for a high proportion of both gross and net income.
3. The Coalition Government has previously indicated that it will remove Housing Benefit for single people under the age of 25. If implemented, the effect would be to reduce the choice of accommodation available to single people who are earning the minimum wage and receive some help with their accommodation costs. In January 2012 housing benefit was reduced for people aged 25 – 35. The maximum this group can now receive in housing benefit is the shared accommodation rate, currently £58.50. Approximately 200 people were affected by this change in Norwich.

However support for small and medium enterprises to enable them to pay decent wages is critical to protect against business closures. Under the current system Tax Credits stand between low earners and severe poverty. A system comparable in strength to that of in-work welfare payments which would provide financial support for small and medium employers to pay living wages is critical in protecting the bottom line of new and emerging enterprises that play a vital role in economic growth, perhaps especially local growth. We know that those near the bottom of the income scale spend straight away and nearer to home than their wealthier counterparts. Evidence from the New Economics Foundation points to a multiplier of 1.64 on money spent locally, an amount that could deliver job creation where it is most needed.

13. Is there anything further you would like to add on the level and impact of the National Minimum Wage?

Any minimum wage guarantee which uses an hourly rate rather than an acceptable baseline level of overall income will have limited effectiveness at a time when the hours of many employees are being reduced and many individuals are working under zero hour contracts.

Alongside concern and focus on the NMW we also would like to register concern for agricultural workers. Norwich sits in the heart of a large rural area and is home to those who work in the agricultural sector. The abolition of the Agricultural Workers Board has increased the vulnerability of this group.

14. What has been the impact of the minimum wage on young people and what effect do you think it has on their employment prospects?

We have no evidence to submit on this question.

15. At what level should the minimum wage be set from October 2014 for:

16-17 year olds

Local anecdotal evidence from Norwich advice workers suggests that young people living in temporary accommodation often become stuck in hostel accommodation for, in some cases, two years as they are unable to afford to move on. The alternative is the less attractive option of poorer quality accommodation that has none of the support available in a hostel setting. Advice workers also report that young people are also often only marginally better off when working. The low under-21 NMW rate makes promoting work very difficult. Work for young people needs to be incentivised with good pay and the possibility of progression.

Apprentices

Norwich advice workers are aware of employers who, attracted by the subsidy and lower pay rates, are creating apprenticeships instead of jobs. These apprenticeships offer little 'skilling up' or chance of employment or progression. The introduction of an incremental pay scale within apprenticeships may be one way to prevent this abuse.

16. Is there anything further you would like to add on young people and apprentices?

We have no evidence to submit on this question.

17. What is your view of the Commission's position that the current arrangements for the accommodation offset should be retained and that it intends to recommend staged increases in the offset towards the value of the hourly adult rate of the NMW when economic circumstances mean the real value of the NMW is tending to rise?

We have no evidence to submit on this question.

18. At what level should the accommodation offset be set from October 2014? Please specify if this is per day or per week?

We have no evidence to submit on this question.

19. Is there anything further you would like to add on the accommodation offset?

The main consideration in setting the accommodation offset level has been to account for the employee's reduced costs from living on the premises. However this fails to take into consideration the extra benefits afforded to the employer through employees living on site in the form of security, unpaid overtime and flexibility in working. The personal cost to the employee of some of these benefits needs to be reflected in the offset level.

20. How far is there compliance with the minimum wage? Do particular groups experience problems with minimum wage compliance (for example apprentices, or interns/others undertaking work experience)?

We have no evidence to submit on this question.

21. Where there is non-compliance with the minimum wage, are there implications for the NMW rates, or other implications (for example for the quality and accessibility of official guidance on the NMW, or the enforcement work of HMRC)?

The key agency that should be at the forefront of enforcement is the HMRC. They not only have a role in calculating Tax Credits but also have the ability to measure claimants working hours against earnings data provided by the Real Time Information system.