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CEL Forward Work Planning: Issues of Note

At the request of the Committee for Employment and Learning (CEL) this paper discusses current developments of relevance to CEL's portfolio which may be of note in its forward work planning. The paper briefly discusses the current state of the Northern Ireland (NI) Labour Market, Productivity in NI and the National Minimum Wage in the United Kingdom (UK).

Introduction

At the request of the Committee for Employment and Learning (CEL), RalSe has prepared a paper highlighting a number of issues which may be of note in its forward planning, given current developments in the NI labour market, productivity in the UK and NI and the introduction of the National Living Wage (NLW) in 2016.

1 Snapshot of the NI Labour Market

This section discusses headline statistics on the Northern Ireland (NI) Labour Market, including the current state of the NI economy, employment, unemployment and economic inactivity.

1.1 State of the Economy

This section of the paper briefly discusses the state of the NI economy based on the available data. Please note, that the data is based on the first quarter of each year, i.e. the most recent available data.

Table 1 below details the NI Composite Economic Index (NICEI).¹

Table 1: Northern Ireland Composite Economic Index (Base rate 2011=100)²

	Q1 2008	Q1 2009	Q1 2010	Q1 2011	Q1 2012	Q1 2013	Q1 2014	Q1 2015
NICEI	109.0	104.1	104.0	99.3	100.2	98.5	99.0	101.4
NI Private Sector	111.9	104.2	104.3	98.7	100.6	98.2	99.7	103.0
NI Public Sector	101.8	103.9	103.5	101.0	99.2	99.3	97.0	97.0

Table 1 compares, year by year, the progress of the NI economy. As can be seen, there has been a sharp fall between 2010 and 2011 in the NICEI, with an unsteady recovery since then. In the first quarter (Q1) of 2015, the overall NICEI has grown by 2.4% since Q1 2014.

The NICEI is base rated against 2011, with the NI economy having grown 1.4% since Q1 2011. This growth appears to have occurred in the private sector, with the economic input of the public sector falling by 3%.

¹ The NICEI is an experimental quarterly performance measure of the NI economy based on available official statistics. Existing published quarterly indices i.e. Index of Services (IOS), Index of Production (IOP), Index of Construction (IOC), and public sector employee jobs data from the Quarterly Employment Survey (QES), plus unpublished agricultural output data (from DARD) are weighted, using Office for National Statistics (ONS) Regional Accounts Gross Value Added (GVA) data to provide a proxy measure of total economic output in the NI economy on a quarterly basis.

² Department for Enterprise, Trade and Investment, NI Composite Economic Index, <http://www.detini.gov.uk/ni-composite-economic-index- nicei>

Table 2: Private sector contributions to change in the NICEI (Q1, year on year)³

	Services	Production	Construction
2007	112.1	100.7	156.8
2008	111.2	104.6	142.3
2009	104.3	94.4	132.6
2010	106.5	92.7	120.0
2011	97.9	98.4	104.8
2012	99.7	100.5	106.3
2013	99.1	97.0	92.0
2014	100.0	102.6	87.4
2015	101.7	107.8	101.4

Within the private sector, the services sector has the lowest level of growth over the year at 1.7%, with the production sector having had a relatively continual rise since the third quarter of 2012. This growth is small but steady, with levels currently approaching similar levels to 2007 and 2008.

The construction sector had the highest growth rate at 16% between Quarter 1 2014 and Quarter 1 2015. It should be noted that this brings the growth rate just about into line with its baseline index in 2011. Much of this recovery appears to have occurred from 2013, with relatively steady, but quick paced growth. It should be noted however that this recovery follows a fall from over 156% in Quarter 1 2007.

As such, based on the NICEI, the NI economy is recovering with growth focused in the private sector.

1.2 Labour Market

This sub-section discusses the main labour market figures for NI.

Table 3 details headline labour market data for NI.⁴ Please note, data is provided for April to June for each year for comparison purposes.

In Table 3 it can be seen that the total population (aged 16+) has increased from 2007 to 2015, whilst the number of people who are active (i.e. who are employed or unemployed) has fluctuated over time. It reached a high in 2014 of 879,000, but fell by 8,000 in 2015.

³ Ibid

⁴ Department for Enterprise, Trade and Investment, Labour Force Survey, Key Data Historical Series, http://www.detini.gov.uk/labour_force_survey

Table 3: Labour Market Statistics, (April to June, Year on Year)

Year	Total (16+)	Active (16+)	Employed (16+)	Unemployed (16+)	Unemployment (16+ Rate)
2007	1,362,000	825,000	795,000	29,000	3.6%
2008	1,379,000	833,000	801,000	32,000	3.9%
2009	1,392,000	806,000	754,000	52,000	6.5%
2010	1,404,000	838,000	782,000	56,000	6.6%
2011	1,413,000	868,000	805,000	64,000	7.3%
2012	1,412,000	862,000	795,000	67,000	7.8%
2013	1,429,000	858,000	794,000	64,000	7.5%
2014	1,437,000	879,000	820,000	58,000	6.6%
2015	1,446,000	871,000	814,000	56,000	6.5%

The fall is reflected in the employment figures, which fell by 6,000 people. However, the number of people who are unemployed also fell. This suggests that other factors may be involved in the drop in activity rates. One such factor could be economic inactivity as discussed below.

Table 4 below details economic inactivity in NI from 2007 to 2015.⁵

Table 4: Economic inactivity (April to June, Year on Year)

Year	16+	%	16 - 64	%
2007	539,000	39.6	325,000	28.7
2008	548,000	39.7	328,000	28.7
2009	588,000	42.2	364,000	31.6
2010	568,000	40.5	336,000	29.0
2011	546,000	38.6	312,000	26.9
2012	559,000	39.6	318,000	27.4
2013	572,000	40.0	330,000	28.4
2014	559,000	38.9	312,000	26.8
2015	576,000	39.8	321,000	27.5

The table provides two sets of economic inactivity data. The 16+ column includes people who have retired. As can be seen, the economically inactive make up a significant portion of the NI 16+ population. However, as these figures include a large proportion of people who have retired and are, therefore, not available to return to work, they must be excluded from the analysis.

The 16-64 column provides data on the working age population. Within this data there can be seen significant fluctuations in the number of people who are economically inactive. For example, in April to June 2009 there were 364,000 economically inactive or 31.6% of the working age population. This figure has fluctuated since 2009 with a

⁵ Ibid

general fall in the figures although in the most recent year data is available for (2015) it has had an approximate rise of 9,000 from 312,000 (26.8%) to 321,000 (27.5%).

Closer examination of this economic inactivity data, based on the age of those who are inactive, can be seen in Table 5 below.⁶ It should be noted that the percentages shown below are of those who are economically inactive, not of the total working age population.

Table 5: Economic inactivity by working age (April to June, year on year)

Year	16-17	18-24	25-49	50-64
2007	12.0%	16.9%	31.1%	40.0%
2008	12.2%	17.4%	30.8%	39.3%
2009	11.5%	19.0%	33.2%	36.5%
2010	13.1%	18.2%	30.4%	38.1%
2011	13.9%	17.4%	30.6%	36.6%
2012	13.5%	23.3%	28.9%	34.3%
2013	13.6%	18.2%	32.7%	35.2%
2014	12.5%	20.8%	30.8%	36.2%
2015	13.7%	17.8%	32.7%	35.8%

The majority of those who are economically inactive in NI and of working age are over 25. In 2015, this amounts to 220,000 people aged 25 to 64.

However whilst both the age groups for the over 25s are much broader than for those under 25, the 16-17 and 18-24 age groups make up 101,000 of those who are economically inactive. Of course, it should be noted that this figure will include students which are disproportionately represented amongst the 16 – 24 age group.

As with other economic inactivity data, the rates fluctuate from year to year. For example, in 2012 the economic inactivity rate for 18-24 year olds reached 23.3%, but fell to 17.8% in 2015.

As CEL is aware, the Department for Employment and Learning (DEL) has launched a wide reaching strategy intended to tackle the high rates of economic inactivity in NI. As the strategy was launched only in April 2015, there are no results on its impact to date.

1.3 Unemployment by Age

Table 6, on the page following, presents the NI unemployment rate by age year on year since 2007 (using the April to June Labour Force Survey (LFS) results for comparison purposes).⁷

⁶ Ibid

⁷ Ibid

Table 6: Unemployment rates by age (April to June, year on year)

	18-24	%	25-49	%	50+	%
2007	11,000	8.8	13,000	2.5	*	*
2008	14,000	11.5	13,000	2.5	*	*
2009	19,000	17.5	26,000	5.2	*	*
2010	18,000	16	28,000	5.4	*	*
2011	20,000	17.2	30,000	5.7	10,000	4.6
2012	22,000	22.6	30,000	5.7	13,000	6
2013	22,000	20.4	30,000	5.8	10,000	4.4
2014	20,000	19.3	27,000	5.1	*	*
2015	21,000	19.5	22,000	4.3	11,000	4.6

The unemployment rate for those aged 18-24 has risen since 2007, reaching a high in 2012 and 2013. In April to June of 2015, 19.5% of young people (21,000) were unemployed.

This should be seen against the context of the much smaller rate of 4.3% for those aged 25-49. Despite the 25-49 age group being a much larger population group, it has almost the same number of people in unemployment.

This implies that NI unemployment affects young people much more than the older age groups. This has been a continuing trend since 2007 and indeed, a look back at earlier employment figures show that prior to 2009 NI youth unemployment previously ranged between 8.4% and 11.4% across the decade. As yet there does not seem to be a recovery back to these pre-recession levels.

Unemployment rates for the 24-49 age group have also begun to fall, from its April to June peak of 5.8% in 2013, to 4.3% in 2015. For those aged 50+, the data provided by NISRA is much more limited (a result of the sample sizes being too small to provide a reliable estimate). However, based on the available data, the number of those aged 50+ who are unemployed appears to have remained relatively static, with a sharp increase in 2012 that returned to its previous levels in 2013.

The Committee may wish to consider the following scrutiny points:

- In light of the increasing levels of NI economic inactivity, what actions has DEL taken to date and what impact have they had on NI economic inactivity? How were these monitored?
- When does DEL forecast the economic inactivity strategy to start to have a positive impact on the economic inactivity rate?
- In light of the new European Social Fund (ESF) Programme, what projects are directly tackling youth unemployment? What are the targets for these projects? What other DEL actions will be taken in the short-, medium-, and long-term?

2 Productivity

An area CEL may wish to note is the productivity of the NI economy.

According to a recent House of Commons Library Briefing Paper:⁸

Productivity generally refers to how efficiently inputs (labour and capital) are used to produce outputs (goods and services). Productivity is important as it is directly linked to living standards – a country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.

A recent Office for National Statistics (ONS) publication compared United Kingdom (UK) productivity with other G7 nations, with the UK acted as a baseline index of 100. United States productivity sat at 131, Germany 128 and France at 127. Only Japan was below the UK at 85.⁹ As such, UK productivity lags behind other developed nations.

Northern Ireland's productivity figures must, therefore, be considered in the light of the UK's own relatively low productivity level.

Table 7 details the changes in productivity between 2007 and 2013 for the UK regions. It uses nominal (smoothed) Gross Value Added (GVA) per hour worked indices, the preferred measure of productivity:¹⁰

Table 7: Changes in Labour Productivity in the UK NUTS 1 regions (UK = 100)

	England	Wales	Scotland	Northern Ireland
2007	102.0	82.2	94.2	84.3
2008	102.0	81.9	95	84.1
2009	101.8	81.8	96.1	84
2010	101.7	82.1	96.8	84.1
2011	101.6	82.7	97.0	84.3
2012	101.6	83.3	97.0	84.5
2013	101.6	83.6	97.0	84.3

As can be seen in Table 7 above, NI has a consistently lower rate of productivity than most of the UK NUTS 1 regions, with only Wales having a lower GVA per hours worked. However, Welsh GVA per hour worked has risen, albeit slowly, since 2009; whereas the NI indices have remained relatively static, with some fluctuations year on year.

⁸ House of Commons Library Briefing Paper, 3 July 2015, Productivity in the UK

<http://researchbriefings.files.parliament.uk/documents/SN06492/SN06492.pdf>

⁹ Office for National Statistics, 20 February 2015, International Comparisons of Productivity,

<http://www.ons.gov.uk/ons/rel/icp/international-comparisons-of-productivity/2013---final-estimates/info-icp-feb-15.html>

¹⁰ ONS, August 2015, Sub regional productivity, <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-393200>

This static productivity is important, as stated by PWC:¹¹

Rising productivity would provide the basis for a more sustainable economic recovery. That is, one where we could afford to pay for rising real wages and be competitive, the latter being demonstrated by improving exports.

The Executive's Economic Strategy makes a number of references to the work to be undertaken to improve skills in NI in order to improve productivity, including:

To enhance employability and productivity, we need to develop skills at all levels in NI.

However, NI productivity remains static at best on a UK-wide basis. This must be seen against the apparent declining levels of UK productivity against the other G7 countries.

The Committee may wish to consider the following:

- **What actions has DEL taken to improve productivity in NI?**
- **Are these actions directly targeted, or are they part of other strategies/policies?**
- **What impact have these actions had?**
- **Taking into consideration the international context (the UK's low productivity in comparison to the G7 countries) what actions does DEL intend to take, in light of the apparent continued decline in NI's productivity?**
- **Have any other countries/regions faced a similar situation? If so, how have such countries/regions improved their productivity?**

3 The National Living Wage

As part of the new UK Government's Budget Statement in June 2015, a new National Living Wage (NLW) was announced. The NLW is intended to "top up" the National Minimum Wage (NMW) for those aged 25 and over by 50 pence an hour.

If enacted this increase in NMW via the NLW could have a number of impacts in NI, some of which are discussed below.

Initially, it is necessary to highlight the terminology used in this area:

- **The Living Wage:** The LW is an hourly rate of pay calculated based on the basic cost of living in the UK. There is a rate for London (as a result of the higher cost of living) and outside London. The LW is determined and set by the Living Wage Foundation, a non-governmental organisation.¹² Simply stated, the LW calculation

¹¹ PWC, August 2015, Northern Ireland Economic Outlook, http://pwc.blogs.com/files/nieo-august2015_final.pdf

¹² The Living Wage Foundation, <http://www.livingwage.org.uk/>

is based on the Minimum Income Standard (MIS) for the UK:¹³ a standard that is developed from research determining household need, in order to have a minimum acceptable standard of living. This includes consideration of minimum weekly household budgets, inflation, cost of living, changes in the tax and benefit system and other costs such as transport. The MIS is updated yearly and is reflected in the changes to the LW. Currently, the UK LW for outside London is **£7.85** per hour, and £9.15 for London;¹⁴

- **The National Minimum Wage:** The NMW is the minimum pay per hour set by the Low Pay Commission and legislated for by the Government.¹⁵ Almost all workers are entitled to the NMW by law. It varies based upon the age of the worker. The NMW is set by the Low Pay Commission (LPC), an independent body that submits a report to the Government every February. The report contains recommendations on the future level of the NMW.¹⁶ The recommendations regarding the NMW are based on extensive examination of evidence, which includes written and oral submissions from stakeholders meetings with employers and workers, a programme of commissioned external research and detailed in-house analysis of labour market and other economic data. For those aged 21 and over, the NMW is **£6.50 per hour** and will be **£6.70** for 2016;¹⁷
- **The National Living Wage:** From April 2016 the UK Government will introduce the NLW for workers aged 25 and over. If enacted the new NLW will be £7.20 per hour, acting as a premium to the NMW (effectively adding 50p to the NMW per hour). Similar to the NMW, the LPC will make recommendations to the UK Government as to how the NLW will change on a year to year basis. The UK Government intends for the NLW to reach 60% of median earnings¹⁸ by 2020 (the £7.20 rate is 55% of median earnings), with the overall objective of the NLW reaching £9 per hour by 2020.

As can be seen above, the NLW is not the same as the LW with different criteria used to set the NLW. In addition, the LW is 65p higher than the NLW.

It is worth noting that there will be a number of impacts from the UK Government's introduction of the NLW.¹⁹

The Office for Budget Responsibility (OBR) in its consideration of the impact of the introduction of the NLW found that it could lead to 60,000 job losses by 2020, lower

¹³Centre for Research in Social Policy, What is MIS? <http://www.lboro.ac.uk/research/crsp/mis/whatismis/>

¹⁴ The Living Wage Foundation, The Calculation, <http://www.livingwage.org.uk/calculation>

¹⁵ Via the National Minimum Wage Act 1998 and yearly Regulations.

¹⁶ Gov.UK, Low Pay Commission, About Us, <https://www.gov.uk/government/organisations/low-pay-commission/about#corporate-reports>

¹⁷ Gov.UK, The National Minimum Wage, <https://www.gov.uk/national-minimum-wage/what-is-the-minimum-wage>

¹⁸ This is notable as 60% of median household income is used as a measure of relative poverty, with those falling below this level considered at risk of entering poverty

¹⁹ Assuming the successful passage of the necessary Legislation/Regulations.

average hours and a reduction of GDP by 0.1%. In addition, there could be lower overall profits for companies, which could lead to an increase in borrowing.²⁰

On the positive side, there would be marginally higher whole economy earnings growth and hourly productivity would increase by 0.3%.²¹

A Resolution Foundation report estimates that 1.9 million people will see their income rise as a result of the introduction of the NLW. In addition, 29% of female employees will benefit from the increase by 2020.²²

However, the Resolution Foundation (RF) carried out an analysis on the 'bite'²³ each UK region would feel as a result of the introduction of the NLW. The Resolution Foundation, whilst unable to provide a full analysis of the impact in NI as a result of a lack of data, found that NI:²⁴

...has the highest bite of any part of the UK, at 63 per cent. This suggests that it is likely to face the most pressures in implementing the NLW.

It should be noted that the RF was unable to carry out a full analysis for NI – the RF made use of Annual Survey of Hours and Earnings (ASHE) microdata which was not available at the NI level.²⁵

Individual business sectors may also be more vulnerable to the increase. For example, Moody's found that:

Food retailers are more vulnerable than other retailers to wage-cost inflation as the low margin nature of the business means that grocers already generate relatively little profit per employee.²⁶

The report further found that 6 million workers would benefit from the increase and that reaching the £7.20 an hour by 2016 figure would not be overly taxing for retailers.

However, reaching the £9 an hour by 2020 would be a different story, with potentially declining profits for the major retailers in the UK. Moody's found that this continued

²⁰ Office for Budget Responsibility, July 2015, Economic and Fiscal Output, <http://cdn.budgetresponsibility.independent.gov.uk/July-2015-EFO-234224.pdf>

²¹ Ibid

²² Resolution Foundation, 2 September 2015, Higher ground: who gains from the National Living Wage?, Higher ground: who gains from the National Living Wage? <http://www.resolutionfoundation.org/publications/higher-ground-who-gains-from-the-national-living-wage/>

²³ 'Bite' - The minimum wage as a proportion of the regional median wage, an example cited by the Resolution Foundation is: *if the bite was low there would be a sizable gap between minimum wage earners and those in the middle, suggesting that the minimum wage is not an excessive source of pressure on wage bills (and also that relatively few people stand to benefit).*

²⁴ Resolution Foundation, 2 September 2015, Higher ground: who gains from the National Living Wage?, Higher ground: who gains from the National Living Wage? <http://www.resolutionfoundation.org/publications/higher-ground-who-gains-from-the-national-living-wage/>

²⁵ Ibid

²⁶ Moody's, 30 July 2015, UK retailer's vulnerable to planned 44% living wage hike, https://www.moodys.com/research/Moodys-UK-retailers-vulnerable-to-planned-44-living-wage-hike--PR_331372

increase could result in closed stores, fewer employed staff and a tendency to only hire workers below the age of 25.²⁷

Other non-food retailers would be better able to meet these increased costs as a result of their higher profitability.

Moody's go on to state that:²⁸

Longer term, the rating agency expects that most retailers will sufficiently mitigate higher employee costs -- thereby easing the potential negative pressure on their ratings -- by improving staff efficiency, accelerating automation and, to some degree, lowering staff levels.

The media has recently reported²⁹ that Sainsbury's has increased its pay to 137,000 shopfloor staff, with its standard rate of pay moving from £7.08 per hour to £7.36, a 4% pay rise. This increase is above the NLW and is applicable to all staff, other than those aged under 18 who will receive a lower training wage during their first six months of employment.

CEL may wish to note that RalSe is currently working on a research paper on the NMW, NLW and the impact of the changes to Tax Credits in NI. This paper will be provided to the Committee as soon as it is completed.

The Committee may wish to consider the following:

- **Has DEL considered what the impact of the NLW will be for businesses and employees in NI?**

4 Other Issues

This section briefly discusses a number of issues which have come to light mentioned in the last few months, but for which there is limited information available.

As such, CEL may wish to note them or consider further investigation:

- **Potential increase in fees:** Whilst there is little on this other than a few press statements by the Minister for Employment and Learning and NI Higher Education Institutions (HEIs), CEL may wish to note that there is a growing call for a conversation on increasing tuition fees in order to offset both the high costs of third level education and the increased cuts the HE sector has faced in the last number of years. With the announced summer 2015 budget and a UK Spending Review to be announced in November, coupled with the ongoing financial uncertainty faced by the

²⁷ The Guardian, 31 July 2015, Ruddick, G, Supermarkets could stop hiring over-25s to avoid national living wage, say analysts <http://www.theguardian.com/business/2015/jul/31/national-living-wage-supermarkets>

²⁸ Moody's, 30 July 2015, UK retailer's vulnerable to planned 44% living wage hike, https://www.moodys.com/research/Moodys-UK-retailers-vulnerable-to-planned-44-living-wage-hike--PR_331372

²⁹ The Guardian, 27 August 2015, Butler, S, Sainsbury's shopfloor staff to receive 4% pay rise, <http://www.theguardian.com/business/2015/aug/27/sainsburys-shopfloor-staff-pay-rise>

NI Executive, it is likely that these pressures will continue to mount for the HE and FE sectors.

The Committee may wish to consider the following:

- **What is DEL's current position on tuition fees and what are its proposed actions (if any) going forward?**

- **Student maintenance grants:** The UK Chancellor announced on 8 July 2015 as part of the summer budget that from 2016-2017 maintenance loans will replace student maintenance grants.³⁰ These powers are devolved in NI. The BBC reported in July 2015 that in 2013/14 60% of NI students received a maintenance grant, with £72 million spent on these grants in 2012/13.³¹ It appears that a decision regarding these changes has not been made in NI. However, a departmental spokesperson did state that any changes would *require careful consideration*.³²

The Committee may wish to consider the following:

- **What is DEL's current position on maintenance grants and what are its proposed actions (if any) going forward?**

³⁰ Gov.uk, 8 July 2015, Summer Budget 2015: Key Announcements, <https://www.gov.uk/government/news/summer-budget-2015-key-announcements>

³¹ BBC News, 8 July 2015, Meredith, R, University maintenance grants: No decision made on scrapping scheme, says Farry <http://www.bbc.co.uk/news/uk-northern-ireland-politics-33446735>

³² Ibid