SUBMISSION FROM CBI SCOTLAND

Inquiry into the living wage

I am writing in response to your current inquiry into the living wage.

Pay awards in local government are not currently subject to direct control from the Scottish Government, with local areas free to set their pay on an individual basis. In considering introducing a living wage across all local authorities the Committee must consider a number of factors including affordability, the impact on Scottish jobs, responsiveness to local labour markets, and the provision of public sector services.

Having outperformed initial expectations during the recession, unemployment in Scotland now stands at 8.5%.\(^1\) In this climate pay growth has remained restrained, as firms have sought to maintain employment by containing labour costs. In 2012 the priority must be to maximise employment opportunities and in light of this we recommended a highly cautious approach to any uprating of the National Minimum Wage (NMW). The introduction of a living wage – amounting to an 18 per cent pay rise – would clearly run counter to this goal.

The impact would fall most heavily on young people, with international evidence showing that they face disproportionate exposure to the negative employment effects of a minimum wage.\(^2\) The ratio of the living wage (£7.20) to the NMW is 1.44 for those aged 18-20, 1.96 for those aged 16-17 and 2.77 for the apprentice rate. With over 100,000 or 23.5 per cent of young people out of work in Scotland – three percentage points higher than the UK rate of 20.5 per cent – it is vital that young people are not priced out of jobs.

While the immediate impact of a significant wage cost increase on younger people and hard-pressed local budgets is a pressing concern, the impact on local labour markets would cause structural issues that are just as damaging in the longer-term. The Westminster Government called for a review of how public sector pay can be made more responsive to local labour markets in the 2011 Autumn Statement, highlighting how differences between public and private sector pay “can adversely affect private sector businesses which have to compete with higher public sector wages. It also leads to unfair variations in public sector service quality and limits the number of jobs that the public sector can support”. With the private sector key to Scottish growth it is vital that action does not lead to the ‘crowding out’ of private sector demand. With the public sector pay premium in Scotland already at 8.9% for full-time employed males – more than twice the UK average\(^3\) – exacerbating this gap is likely to further impede the smooth functioning of local labour markets and hurt the very firms we are looking to for sustainable growth, especially away from the main cities.

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\(^1\) ONS Regional summary of labour market headline indicators, August to October 2011
\(^2\) Low Pay Commission report 2011
\(^3\) Public sector pay and pensions, Institute for Fiscal Studies, November 2011
The final consideration that needs to be made is the impact of a significant wage cost increase on the affordability of service provision. A move from the NMW to the living wage could constitute a significant cost increase for service providers, especially if differentials are maintained, and prove administratively complex particularly if the supplier serves both public and private customers. In light of current fiscal constraint and diminished resources, it is unclear as to how this would be funded without a subsequent impact on the affordability and competitiveness of public sector and outsourced services, and the total level of service provision.

We hope this submission will be of interest to the Committee.

Kind regards,

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