Is Northern Ireland the unintended victim of the UK autumn Budget?

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The 2020s have been a very challenging time for business. The decade started with the pandemic which had a huge impact both on local employers and the public finances.

Next, as the world emerged from lockdown, the Russian invasion of Ukraine saw the price of energy and other commodities increase significantly. This put many businesses under immediate strain and also had the added impact of raising general inflation, which in turn resulted in higher interest rates pushing many economies into a mild recession.

Then, just as inflation was back under control and interest rates were starting their downward trajectory, the new Labour Government announced its autumn Budget which included a significant increase in employers national insurance contributions. This added further to the many cost burdens being faced by businesses across Northern Ireland.

Last week, my colleagues in the Ulster University Economic Policy Centre published research examining the impact of the Budget, which shows that the measures announced affect Northern Ireland to a greater extent than anywhere else in the UK.

From last month, the employers national insurance rate increased from 13.8% to 15% and the earnings threshold, above which national insurance must be paid, was reduced from £9,100 to £5,000.

This reduction in the earnings threshold is the real problem, as it creates a disproportionate impact on employers of lower earners and part-time workers.

As Northern Ireland has the lowest average hourly wage rates across all 12 UK regions, the impact on employers here will be greater.

By way of comparison, 9.9% of workers in Northern Ireland earn either the National Living Wage (applies to 21 year olds and over) or the National Minimum Wage (applies to 18-20 year olds) against a UK average of just 6.5%.

These measures are having a particular impact on sectors such as hospitality, retail, agriculture, child care and adult social care, given their lower average wages and greater propensity for part-time working.

By way of example, the analysis estimates that labour costs for a large social care employer of 100 staff, will increase by approximately £180,000 per year as a result of the national insurance and National Living Wage increases. This is a huge sum of money for organisations not in business to make a profit.

Given the scale of the impact, employers most affected will be forced to respond in a number of ways.

That will include raising prices, particularly those in low margin businesses who are unable to absorb the cost increases into profit. This is inflationary at the broader economy level and explains the reluctance of the Bank of England to reduce interest rates at a faster pace.

Importantly the evidence suggests there will not be mass lay-offs, but some firms seem to be pivoting from growth mode to consolidation mode which will result in many organisations scaling back their recruitment plans. This has a disproportionate impact on younger people as many are seeking to enter the labour market for the first time.

Since the introduction of the National Living Wage in 2015, those at the lower end of the earnings scale have enjoyed larger percentage pay increases than higher earners.

This trend is likely to continue, with employers under increasing financial pressure to find savings elsewhere and therefore pay increases for other staff are likely to be curtailed.

Finally, there may be some risk that these measures could encourage greater levels of cash-in-hand payments to staff and cash only purchases.

This larger 'informal economy' is damaging to the public finances as tax receipts fall but it also reduces protections and development opportunities for workers. If this happens on a large scale, it would be a most unwelcome development.

It is also worth mentioning that many organisations which sit outside the public sector are critical in the delivery of public services. This includes the voluntary and community sector, GP surgeries, dental practices and pharmacies.

For these employers, Government policies control both much of their labour costs through National Living Wage levels as well as their prices through funding contracts.

In addition, regulations also limit their ability to cut staff numbers and hours or days worked, an adult social care employer cannot close on Mondays and Tuesday to reduce staff, their services are required every day of the week.

Overall, it seems the Labour Government had boxed itself into a corner. They made significant pre-election spending commitments alongside pledges not to increase income tax, VAT or national insurance on working people.

This created a problem because those are the three largest revenue raising taxes at the government's disposal and no other tax increases could raise the level of revenue required.

As a result, they landed on increasing the employer's component of national insurance as way, in their view, to stick to their pre-election promise. But this put the entire burden of additional revenue raising on business and given the wider economic fallout, it suggests that the full implications of these budget measures had not been fully thought through.

A policy reversal is almost certainly off the table and the high levels ofborrowing rule out future tax cuts, but atleast any future tax rises are unlikely to fallon business.

Challenging times lie ahead but given the recent local government election results in England, the focus will likely shift to supporting economic growth above all other priorities, where it should have been since day one.

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About UUEPC

UUEPC is an independent economic research centre focused on producing evidence-based research to inform policy development and implementation. It engages with all organisations that have an interest in enhancing the Northern Ireland economy. The UUEPC's work is relevant to government, business and the wider public with the aim of engaging those who may previously have been disengaged from economic debate.

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