

Living Wage Report

1 Executive Summary

- 1.1.1 Living wage calculations take account of the basic living costs faced by an average low income worker and the benefits that they can claim. These factors are used to set a single hourly wage rate, known as a living wage.
- 1.1.2 There is no consistent way of calculating living wage rates across different jurisdictions with campaign groups in each country choosing their own method.
- 1.1.3 Governments are not responsible for setting living wage rates. Employers choose to register with a campaign group if they commit to using the living wage rate.
- 1.1.4 Experience from the UK suggests that the living wage campaign has resulted in wage increases for only a small number of staff. For example, 2% of low-paid employees in London have had an increase in wages as a result of the London living wage.
- 1.1.5 Based on the calculation used to set the London living wage, and adjusting for local costs, the minimum wage rate already in use in Jersey (£6.78 from 1 April 2015), combined with Income Support, satisfies the living wage requirement.
- 1.1.6 Many low income households do not include wage earners and these households will not benefit from increases in wage rates. The household spending and income survey will be published later in 2015 and will provide valuable information on the distribution of relative low income amongst different household types in Jersey.
- 1.1.7 A detailed background report on this investigation is available at <http://www.gov.je/Government/Departments/ChiefMinisters/Pages/Reports.aspx>.

2 Introduction

- 2.1.1 According to the UK Living Wage Commission, a Living Wage is “an hourly wage defined as the minimum amount of money needed to enjoy a basic, but socially acceptable standard of living.”
- 2.1.2 This report summarises the results of an investigation into the possible introduction of a living wage in Jersey, with reference to:
 - (a) the experience in other jurisdictions;
 - (b) the appropriate level at which a living wage might be set in relation to the cost of living differentials between Jersey and the United Kingdom;
 - (c) the overall economic impact and business costs by sector;
 - (d) the effect on States revenues; and
 - (e) the wider social policy context

This investigation is in response to P.37/2013, approved by the States on 01/05/2013.

- 2.1.3 This investigation has been conducted by a team of officers from the Chief Minister's Department, the Social Security Department, and the Economic Advisor.

3 The Experience of a Living Wage in Other Jurisdictions

- 3.1.1 The investigation reviewed the experience of a 'living wage' in the United States (Baltimore, Maryland), Canada (Metro Vancouver, British Columbia), New Zealand and the United Kingdom (London and Outside London).
- 3.1.2 The Baltimore model is typical of a number of living wage schemes in the United States. It creates a statutory minimum wage level for selected public sector employees and contractors within a local area. It does not apply to private sector employers and includes a wide variety of exceptions for government employees and contractors. It also ignores the impact of means-tested benefits.

- 3.1.3 As such, it is quite different to the living wage campaigns in other countries which are designed to be available to all employees. The US model of living wage has not been investigated in detail.
- 3.1.4 The other schemes investigated all use a similar basic format. The calculation to set a living wage looks at a variety of typical low income working households. Information is collected on basic living costs for the household, the taxes and contributions they are required to pay, and the in work benefits that they can claim.
- 3.1.5 All these elements are combined and averaged to create a single hourly rate, known as the living wage. Living wage organisations endorse employers who commit to pay all their employees at least the living wage. In some cases the commitment extends to staff working for contractors, as well as direct employees.
- 3.1.6 The living wage is designed to work in parallel with tax allowances and in-work benefits. Living wage calculations are based on the assumption that households receive all benefits and tax allowances they are entitled to. For example, an employee with a child who works for a living wage employer receives the same living wage rate as a fellow employee who does not have a child. It is the benefit system which provides additional support to the worker with the child and the combination of the earned income and extra benefit income that provides the total household income.
- 3.1.7 Funding for living wage campaigns and the research and calculations of living wage rates are undertaken by charitable, social research, non-government organisations. Living wage rate calculations are based on a wide variety of data. Some of this data will be provided by government sources. Other information will be gathered from a range of commercial and other sources. Governments are not responsible for calculating or setting living wage rates.
- 3.1.8 Living wage methods vary substantially and though there have been calls to standardise living wage calculations on a national level or have international living wage calculations, these do not exist yet and would likely prove difficult to establish as living standards and wage rates vary considerably from country to country.
- 3.1.9 Irrespective of differences between living standards, there are also significant differences in the calculations underlying the living wage rates used:

Jurisdiction	Number of Household Types used in calculation	Number of wage earners per household used in calculation
Metro Vancouver, BC	1	Two adults working full-time supporting two children
New Zealand	1	Two adults – one working full-time and one part-time –supporting two children
London	11	Depends on household type
Outside London	9	Depends on household type

Table 1: household types used in living wage calculations in other jurisdictions

- 3.1.10 The living wage philosophy promotes the idea that a worker's wage should not just be set by market forces. By explicitly focusing on living standards, a living wage looks beyond the minimum wage which only considers what the labour market can bear without a significant effect on employment. In reality, some schemes have adapted their living wage rate in response to market forces. For example,
- The Outside London scheme applies two separate caps to the annual calculation of the living wage rate: the first cap limits the increase in the net household income in line with the rise in net income that would be achieved by someone on average earnings. The second cap limits the increase in the living wage itself relative to the increase in average earnings.

- The New Zealand scheme chose a lower average weekly budget figure rather than the original higher value agreed through focus groups.

3.1.11 In summary, there is no consistent way of calculating a living wage internationally. National governments are not responsible for calculating and setting the living wage in their own jurisdiction.

4 An Appropriate Level for a Living Wage in Jersey

In estimating an appropriate level for a possible living wage calculation for Jersey, many factors will have an impact on the rate, such as

- The number of household types used;
- The make-up of those households – marital status, number and ages of children
- The number of hours worked by the adults in the household
- The weekly budget for each household type to achieve – what items are included and their cost
- How (if at all) the final calculation is limited by market forces

4.1.1 As far as possible, the calculations for the London living wage have been used to estimate a Jersey living wage.

4.1.2 Due to the relatively small population of Jersey, only four household types were used (compared to 11 types in the London model) and both adults were assumed to work full time and have two dependent children. Four household groups were used in the calculation, rather than 11 groups employed in the London methodology. Due to Jersey's relatively small population, using a large number of very specific household types as per the London methodology would have resulted in small numbers for some categories, with considerable inherent statistical uncertainty. Using broader groupings reduces statistical uncertainty and also reduces the potential for bias. The four household groups used are standard household classifications as published in the 2011 Jersey Census.

4.1.3 Household costs (shopping baskets) were increased by 2% from the London values to reflect the price comparison between Jersey and London, but local prices were used for rent, rates, and childcare.

4.1.4 Using these four household types and London's living wage calculation methodology the results of the calculations confirmed that the minimum wage rate already in use in Jersey (£6.78 from 1 April 2015) satisfies the living wage requirement.

4.1.5 This value is lower than the London figure of £9.15 (2015) for a number of reasons:

- Income tax and Social Security contributions are lower in Jersey compared to UK
- The Income Support benefit system acknowledges the individual make-up of a household and is very similar in approach to the budgets used for living wage calculations.
- Income Support includes support for low income working households by providing disregards against earned income of up to 29%, allowing the household to achieve a total household income that matches the standards set by the London living wage.

4.1.6 The diagrams below show that the household budget in London requires the additional income from the living wage to make up the full household budget, whereas the

combination of minimum wage earnings and income support benefits available in Jersey fully satisfies the household budget requirement.

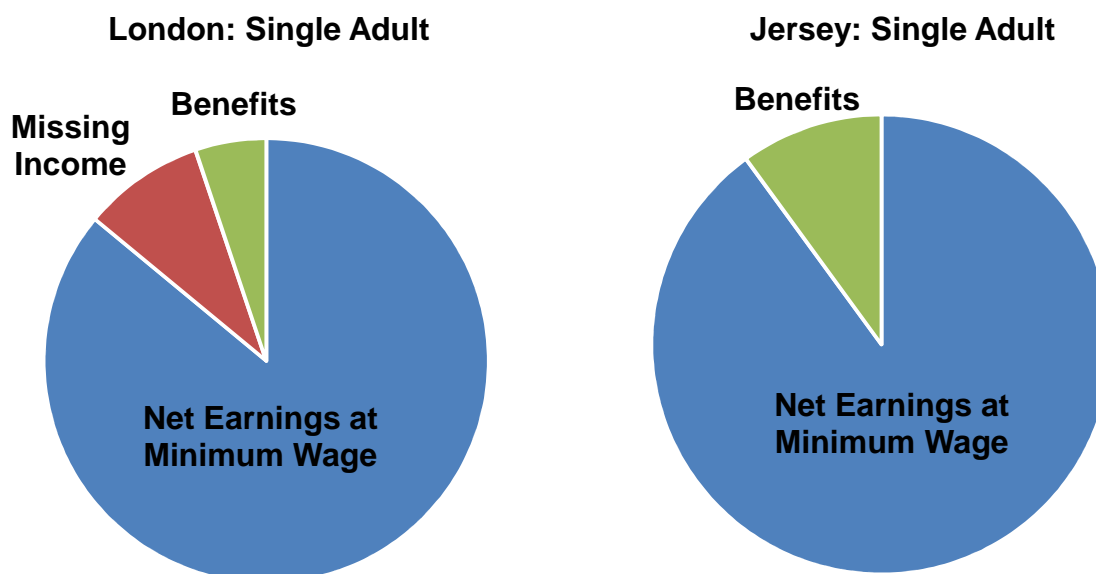


Figure 1: example benefit and wage ratio (London)

Figure 2: example benefit and wage ratio (Jersey)

4.1.7 Living wage calculations in other countries assume that households are able to claim the full range of in work benefits and the calculations for Jersey have been based on families that are eligible for income support. In particular, income support includes a residency requirement of at least five years for the adults in the household. A household that is not eligible to claim income support will have a lower total income, compared to a similar family that is eligible to claim income support.

5 The Economic Impact of a Living Wage in Jersey

5.1.1 A report on the economic impact of a living wage for Jersey has been produced by the Economic Advisor and the full report is available at <http://www.gov.je/Government/Departments/ChiefMinisters/Pages/Reports.aspx>.

5.1.2 The report assumes a living wage that is higher than the minimum wage and considers the timing of introducing any living wage.

5.1.3 In summary:

- Any estimate of the impact of introducing the living wage in Jersey is limited by the difficulty in predicting how many employers will sign up, or how many employees will be affected. Experience from the UK suggests that accreditation of employers has resulted in wage increases for a small number of staff.
- Firms may benefit from implementing the living wage, through productivity improvements, reputational benefits, improving competitiveness or lower staff turnover – but it is not clear why firms would not choose to implement the higher wages anyway.
- With a voluntary living wage, there is unlikely to be any impact on inflation or aggregate employment. There may be some impact on competitiveness or employment if firms feel forced into implementing higher wages, e.g. through moral pressure.
- There may be some reduction in benefits or increase in personal income tax but the impact will also depend on the level of take-up and number of employees affected. The impact of States expenditure will be very much dependent on what level the living wage might be in comparison to existing States hourly rates.

6 The Effect on States Revenues of a Living Wage in Jersey

- 6.1.1 As Jersey's minimum wage would satisfy the living wage requirement (as used in London), there would be no savings to States expenditure (benefits and supplementation) or increase to States revenue (taxes).
- 6.1.2 However, even if a higher wage was implemented in Jersey, the number of workers that might see an increase in wage rate is likely to be very small. A recent survey suggested that only 2% of low-paid employees in London have actually benefited from the London living wage.
- 6.1.3 Local information suggests that there may be 5,000 workers currently receiving low pay. Based on the experience in London, approximately 100 of these workers might see a pay rise if a voluntary living wage was introduced. This would have a negligible impact on the cost of supplementation or increased income tax revenues.
- 6.1.4 Average earnings data (June 2014) shows that sectors such as hospitality, retail and agriculture have the lowest average weekly earnings. Although there is no direct link to hourly wages, data from the UK (Labour Force Survey, 2013) suggests that migrants concentrate in similar low-skilled sectors such as hospitality, retail and agriculture.¹ In Jersey, recent migrants do not qualify for the income support benefit, so there would be no benefit savings from these workers receiving a higher wage. Moreover, if low wage earners are predominantly migrant workers any increase to the wage value may result in an increase of workers arriving in the island.
- 6.1.5 A sample of Income Support households identified an average (mean) wage received of £9.84 per hour, nearly half as much again as the minimum wage. From the same sample, only one in 10 workers receiving income support is paid at the minimum wage. As such, introducing a voluntary higher wage would have limited benefit savings unless it was set above this level. £9.84 is above both the living wage in London (£9.15 p/h) and Outside London (£7.85 p/h).
- 6.1.6 In summary, the impact of the introduction of a living wage on the value of government expenditure savings and / or increase in revenue would be very limited.

7 The Wider Social Policy Context

- 7.1.1 Living wage campaigns are designed to support low income workers and in work poverty has been an area of increasing concern during the prolonged economic downturn. Locally, there has been significant effort over the last few years to support local individuals into employment to address the historically high levels of unemployment.
- 7.1.2 As noted above, living wage calculations are designed to include in work benefits. The labour market in Jersey includes a significant number of recent migrants who do not qualify for income support as they have been living in Jersey for less than five years. Total household income for these households will remain lower than anticipated in the living wage calculation, even if their employer signs up to a living wage rate.
- 7.1.3 The Social Policy Framework published in 2007 noted that: "many migrant workers make compromises to minimise their living costs and retain larger savings to send or take home. Government cannot legislate against these individual choices, but must recognise the potential vulnerability of these people as employees, tenants and consumers and ensure that their rights are protected and respected."
- 7.1.4 The States has already made a commitment to increase the minimum wage over a number of years to 45% of mean average earnings, subject to economic considerations (P. 26/2010 – as amended). The Employment Forum reviews the minimum wage rate each year and measures progress against this commitment in its recommendations. In

¹ <http://www.migrationobservatory.ox.ac.uk/briefings/migrants-uk-labour-market-overview>

theory, increasing the minimum wage in line with this existing commitment would have an impact for employees across the board, including migrant workers.

- 7.1.5 However, there are many other causes of low income which apply to local families and which would not be addressed by a living wage or a higher minimum wage. 2/3 of households receiving income support do not receive any earned income. These include pensioner households and households where adults are unable to work due to a serious disability or long-term illness, or are caring for a disabled person or a young child. In addition, individuals made redundant or losing their job through the insolvency of their employer, and young people leaving school unable to find a job do not benefit from the living wage.
- 7.1.6 The Strategic Plan (P 27/2015) sets out a broad vision of supporting social inclusion. It states “Providing good health care, encouraging healthy living and ensuring that everyone has access to high-quality education and decent housing are key building blocks to allow everyone to participate fully in society.” At the same time, an emphasis on economic growth is designed to provide government with more resources to fund services to help lower-income households and safeguard the vulnerable and effective controls will ensure that competition works in favour of consumers to promote more affordable living.
- 7.1.7 In particular, over the next few years, the States will ensure that competition helps contain prices and that markets work in the interests of consumers. The Competition Framework will be reviewed and updated where necessary, removing barriers to and promoting competition.
- 7.1.8 The household spending and income survey is a five yearly survey which provides a detailed picture of local spending habits and household income. Fieldwork is close to completion on the current survey and the results will be published by the Statistics Unit at the end of 2015. The outcomes of the survey will identify relative low income levels amongst different household groups and help to form future social policy objectives.

8 Conclusion

- 8.1.1 There is no consistent way of calculating living wage rates across different jurisdictions with campaign groups in each country choosing their own method.
- 8.1.2 Governments are not responsible for calculating or setting living wage rates. Employers choose to register with a campaign group if they commit to using the living wage rate. There has been a very limited take-up of living wage rates amongst employers in typical low wage sectors.
- 8.1.3 Based on the calculation used to set the London living wage, and adjusting for local costs, the minimum wage rate already in use in Jersey (£6.78 from 1 April 2015) satisfies the living wage requirement.
- 8.1.4 As Jersey’s existing minimum wage would satisfy the living wage requirement, there would be no savings to States expenditure (benefits and supplementation) or increase to States revenue (taxes). Even if a higher living wage rate is introduced, the number of workers who would see an increase in wages is likely to be very small, leading to very limited savings to States expenditure
- 8.1.5 Increasing the minimum wage over time, as agreed by the States in 2010, would have a positive impact for all low wage earners.
- 8.1.6 Many low income households do not include wage earners and these households will not benefit from increases in wage rates. The household spending and income survey will be published at the end of 2015 and will provide valuable information on the distribution of relative low income amongst different household types in Jersey.