STATES OF JERSEY

LIVING WAGE FOR JERSEY: INVESTIGATION

Lodged au Greffe on 18th March 2013
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

to request the Chief Minister, in consultation with other members of the Council of Ministers as appropriate, to investigate the feasibility and desirability of the introduction of a living wage for Jersey, with the investigation to include –

(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;

(e) overall cost/benefit analysis within the Social Policy Framework;

(f) methods for, and timing of, the introduction of the living wage;

and to report back to the States with his findings no later than 31st January 2014.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

What is the living wage?

The idea behind a living wage is very simple: That a person should be paid enough to live decently and to adequately provide for their family. At its heart is an ethical argument for preventing in-work poverty and ensuring workers are not exploited through low wages. This requires a wage that takes into account the area-specific cost of living, as well as the basic expenses involved in supporting a family.

It is becoming increasingly clear to me that the Island wastes significant and increasing resources in the benefit system (around £20 million annually, see below) in propping up a system which supports low wages and high rents.

Living wage levels and calculation

In the UK, there are currently 2 widely accepted standards for the living wage: one is for London and another is for all parts of the UK outside of London.

The London living wage

Since 2005 the London living wage (LLW) has been calculated annually by the Living Wage Unit of the Greater London Authority (GLA). The London living wage is defined as 'the threshold at which people can live above the poverty level in London with a sufficient safety net to also provide for quality of life'.

The LLW currently stands at £8.55/hour, following the rise announced by Boris Johnson in November 2012.

The GLA Unit calculates the London living wage using 2 approaches. The first calculates the wage needed to meet the costs of a basic budget for a range of households. This is termed the "Basic Living Costs" approach. The second – the "Income Distribution" approach – is set at 60% of the median income for London. The results of these 2 calculations are averaged and 15% added as a margin to cover for unforeseen events.

The living wage outside of London

The living tools for calculating the living wage outside of London are provided by the Minimum Income Standard (MIS) research project based at Loughborough University and funded by the Joseph Rowntree Foundation. The MIS provides a well-researched measure of how much a worker needs to earn to avoid the effects of poverty, such as ill-health, poor levels of child development and social exclusion.

Nationally (outside London) this figure has been calculated at £7.45 an hour for 2012/13. This is based on a couple with 2 children both working 37.5 hours a week and with paid child care and taking up their full entitlement to means-tested benefits. This is a very basic budget. The family lives in council housing, does not run a car, contribute to a pension or spend money on debt repayment.

In proposing that Jersey adopt the concept of the living wage, there are 2 fundamental issues that need to be addressed –

(i) whether the existing minimum wage is adequate to meet basic living costs in the Island, and if not,

(ii) what is the appropriate level needed?

A study of the comparative cost of living between the UK and Jersey is due to be completed by the States Statistics Unit during the course of this year, probably by July. This may include regional variations and will give a good steer on appropriate comparisons of minimum/living wage levels.

To examine whether the existing minimum wage is adequate requires an examination of the interaction between low wages and the requirement for additional support from the States.

Support for households with low incomes comes from 2 sources: tax revenues and social security contributions. The tax-funded benefits are given in Table 2, taken from the 2011 Income Support Report, below. The vast majority of this support (95%) comes from 2 elements: Income Support and Supplementation, totalling £155 million. Both of these elements are responsive to the level of earnings.

	Tax-Funded Benefit / Service	2011 Spend £000
Benefits:	Income Support	90,067
	Invalid Care Allowance	2,637
	Christmas Bonus	1,530
	Food Costs Bonus	275
	TV Licence Benefit	264
	Jersey 65+ Health Scheme	224
	Dental Fitness Benefit Scheme	99
	Housing Adaptation Grants	31
	Non-Contributory Death Grants	19
Services:	Employment Services	2,974
	Employment Relations	501
	Health & Safety at Work	464
States Grant	Contribution to Supplementation – Social Security Fund	65,348
Net Expenditure		164,433

Table 2: Social Security tax-funded expenditure 2011

The sum of £90 million for Income Support can be broken down further in Table 3 from the IS Report, as follows.

Category	2011 £000
Income Support: Weekly Benefit	66,940
Income Support: Transition (Protected) Payments	2,004
Income Support: Special Payments	1,430
Income Support: Cold Weather Payments	345
Income Support: Residential and Nursing Care Fees	16,613
Administration	2,735
Total	90,067

Table 3: Categorised 2011 Income Support expenditure

This shows that approximately £67 million is paid out in weekly benefits to some 6,400 households comprised of some 8,200 adults and 3,200 children. Some 28% of claims go to pensioner households. The contribution of Income Support to total household income is described here and given in Table 7 of the IS Report:

Total Household Income

Income Support tops up other household income. Many Income Support households receive income through earnings, pensions, other social security benefits, maintenance agreements and other income. 80% of Income Support households have some other form of income, with the remaining 1,296 (20%) of Income Support households being totally reliant on Income Support for their weekly income.

As household income from other sources increases, the Income Support benefit decreases until the family is fully self-sufficient. Depending on the source of income, a variety of incentives and allowances are provided to encourage Income Support families to support themselves as far as possible.

Table 7 indicates the average weekly income received from Income Support and from other sources for each of the household types at the end of 2011.

Household Type	Income Support Benefit £	Other Income £	Total Household Income £
65+	158	202	360
Adult/s without Children	166	130	296
Adults with Child/ren	288	385	673
Single Adult with Child/ren	333	177	510
All Claims	208	193	401

Table 7: Total average weekly income based on claims as at 31/12/2011

Further analysis of these benefits shows that some 72% of all awards are made to households with working-age adults and that 40% of these are made to support those in work:

Earnings

In 2011, Income Support households had total earnings of approximately £32 million. There is an earnings disregard of 20% (plus an additional 6% in respect of the cost of Social Security contributions) which is allowed against the Income Support calculation, providing a real incentive for low income families to take up and remain in work.

As at 31 December 2011, the distribution of adults with earnings amongst all claims consisting entirely of working age adults was as follows:

Working Age Household Type	No. of Claims with no Adult with Earnings	No. of Claims with at least one Adult with Earnings	Total No. of Claims	% of Households with no Adult with Earned Income
Adult/s without Children	2,012	686	2,698	75%
Adults with Child/ren	189	712	901	21%
Single Adult with Child/ren	550	467	1,017	54%
All Working Age Households	2,751	1,865	4,616	60%

Table 8: Working age adults with and without earnings as at 31/12/2011

The proportion of the £67 million which goes to support working-age families can therefore be calculated as £67 million x 72% x 40% = £19.3 million. This would correspond to an average annual payment of £10,340 per claim or £199 weekly. This is added to the £32 million earned income in these households, which on average is around £17,000 per year or £330 weekly.

The economic case for the living wage

One initial objection to introducing a living wage is that employers simply cannot afford it. Yet, the reality is that the cost is not as high as might be thought. Even if we put aside the benefits to reputation, recruitment, retention and staff morale, the basic economics of introducing a living wage may surprise many skeptics. In their May 2012 report "What price a living wage? Understanding the impact of a living wage on firm-level wage bills," the think tank IPPR shows that the introduction of a living wage is significant, but not punitive (*see* Appendix 1). They say –

> *"... estimates make clear that for listed firms in construction, software and computing, banking, and food production, average wage bill increases as a result of implementing a living wage are small (around 1.0 per cent or less) … the introduction of a living wage will not entail exorbitant upfront wage bill increases."*

The IPPR report focuses, in the main, on London Stock Exchange listed employers, but many of the lessons from their report apply to the employers more generally.

To give a more specific example of the costs involved of introducing a living wage, we can look at the recent example of inner London local authority, Southwark Council. In their 2012 budget-setting process, the council administration decided to implement a living wage for all directly employed and contracted-out staff. On investigation, it was found that there were only small numbers of directly employed council staff who were earning below the London living wage level.

To fund the introduction of the living wage for contracted-out staff, including care providers, the administration allocated an additional £1 million to the revenue budget.

Further increases may be necessary in the future as other contracts come up for renewal. Nonetheless, in the context of an overall local authority wage bill, these are not huge increases and have been achieved at a time of large cuts in central government funding for local government. In short, where there is a will, there is a way.

The ethical case

Perhaps the most powerful case for a living wage is a moral one. There is widespread acceptance of the argument that people should not be expected to work for wages which condemn them and their families to a life of poverty. Very low wages which do not keep pace with living costs can cause misery to both workers and their children. People caught in this situation often find themselves having to take multiple jobs which stop them from caring for their families. Alternatively, they are forced to do without the basics of a civilized home life such as heating, communications or healthy food.

Recruitment, retention and absenteeism

When an employer is looking at the possibility of introducing a living wage, they should take into account the possible benefits to their staff recruitment, retention and absenteeism.

A study by the Greater London Authority into the benefits of a living wage found that more than 80% of employers believe that the living wage had enhanced the quality of the work of their staff, while absenteeism had fallen by approximately 25%. Two-thirds of employers reported a significant impact on recruitment and retention within their organisation. 70% of employers felt that the living wage had increased consumer awareness of their organisation's commitment to be an ethical employer.

Following the adoption of the living wage, Price Waterhouse Coopers found turnover of contractors fell from 4% to 1%.

As Guy Stallart, Director of Facilities for KPMG Europe says: "Many people see paying living wages as only something to worry about only when the economic cycle is buoyant. Such a perspective is extremely short term. A really motivated workforce is in many ways even more important when businesses are facing really challenging times."

Wendy Cuthbert, head of UK corporate real estate services for Barclays Group, says that since adopting the London living wage in 2007, her company has seen catering staff retention rates increase to 77% compared to an industry norm of 54%, and cleaning staff retention rates climb to 92% compared to the industry norm of 35%.

"Now when we train our staff we know that the money isn't being wasted", she says. "They don't want to leave and they no longer have to do two jobs just to survive."

As a result, Barclays has found that savings made on recruitment and training has offset the increase in the wage bill. "Overall it's been cost neutral for us", she says. "Productivity has remained the same because we had service-level agreements in place anyway and there's been a slight improvement in absenteeism. But most of all, our workforce e is now stable and reliable."

This is a tremendous business benefit. Barclays employs around 1,500 catering, cleaning and security staff within the M25 area and has now committed to paying them above the LLW.

“Employers need to look at the whole cost of employment not just the cost-per-hour”, advises Cuthbert. “We don’t understand why more companies don’t do this.”

Productivity

Experience has shown that the increase in costs is less than might be first thought, because paying higher wages reduces turnover and absenteeism costs and makes workers more motivated to keep their job.

Queen Mary University of London, where cleaners were brought back in-house in early 2008, found that, “In reality, the introduction of the living wage has not been the big drain on resources predicted by its opponents: the in-house cleaning service came in only slightly more expensive than that provided by sub-contractors – including start-up costs. When looked at over a 2 year period, the expected budget for 2008/9 is almost identical to the expenditure spent on contract cleaners in 2006/7.”

Other employers who have implemented the London living wage, for instance, major financial institutions at Canary Wharf, have also reported that they experienced better retention of staff and improved service as a result. The Chartered Institute of Personnel and Development (CIPD) calculated the median recruitment cost of filling a vacancy as £2,930 in 2010. Living wage employers have found that they have made significant savings by reducing absenteeism and turnover and improving productivity.

Impact on States revenues

Estimates of the numbers of low-wage workers have been developed by the SOJ Statistics Unit and are attached here in Appendix 2. These show that there are some 10% (4,600) of the workforce on low hourly rates (less than £6.80), of whom some 6% (2,900) are on the minimum wage.

These figures were taken in June, and so probably are peak figures, but are broken down by sector and by permanent/temporary contracts. The calculations here assume that temporary contracts are here for perhaps 9 months of the year on average. These data enable reasonable estimates of the impact of low paid work on the revenues of the States in social security supplementation, income tax and income support.

Supplementation

Workers on the minimum wage £6.52, working a 40 hour week, will earn £13,560 per year. This means that supplementation is paid from general taxation to “top up” their contribution to the Social Security Fund of –

£44,232 - £13,560 = £30,762 x 10.5% = £3,230 per year.

If these workers were paid the living wage of £8.55, then their annual earnings would be £17,784. The supplementation bill would be reduced to £2,777, a difference of £453 per year. Raising the wages of these workers to the living wage would reduce the annual supplementation bill by £1.18 million.

For those 1,700 workers who earn just above the minimum wage there is a further contribution to the reduction of supplementation. Again, these workers on £6.80 (or less) will earn some £14,144 per year. Supplementation will be –

£44,232 - £14,144 = £30,088 x 10.5% = £3,159 per year.

Allowing for the balance of permanent and temporary staff, outlined above, gives a reduction in the cost of supplementation of £583,000.

The total saving in supplementation is therefore £1.76 million annually.

Income Support

Income support is designed to be an in-work benefit. As shown above, some £19 million annually goes to support households where one or more working-age adults has earned income.

The table below shows the impact of increased earned income on a range of households. The 3 levels are –

Jersey minimum wage (£6.53 – £261 weekly)*
UK National living wage (£7.45 – £298 weekly)**
London living wage (£8.55 per hour – £342 weekly)***

	Earned Income	*Maximum benefit*	*Regarded income*	*Weekly benefit*	*Benefit reduction*
Single adult	£261*	£305.20	£193.14	£112	
one-bed	£298**	£305.20	£220.52	£85	£27
flat	£342***	£305.20	£253.08	£52	£60

	Earned Income	*Maximum benefit*	*Regarded income*	*Weekly benefit*	*Benefit reduction*
Single parent	£261*	£447.80	£177.48	£270	
two-bed	£298**	£447.80	£202.64	£245	£25
flat	£342***	£447.80	£232.56	£215	£55

	Earned Income	*Maximum benefit*	*Regarded income*	*Weekly benefit*	*Benefit reduction*
Couple 2 children	£261*	£630.51	£193.14	£437	
three-bed	£298**	£630.51	£220.45	£410	£27
house	£342***	£630.51	£253.08	£372	£65

These figures have been produced using the Income Support calculator updated for October 2012 IS rates.

Applying these living wage rates to those on permanent minimum wage contracts given in the low-wage survey below would produce savings on the Income Support bill of £2.4 million and £5.4 million at the lower and higher rates respectively. Bringing those on a low-wage (below £6.80) up to a living wage could reduce this by up to a further £3 million.

Income Tax

Establishing a Jersey living wage and increasing the numbers who are receiving the living wage as distinct from the minimum wage, would not only reduce both the Income Support bill along with the costs of supplementation as described above, but would also bring in more income tax revenues. This, however, is more difficult to estimate without access to the detailed analysis of earnings and household structures contained in the records kept by the Comptroller of Income Tax. However, we can get a rough and conservative estimate of what additional revenue this might produce using a cross-section of low-wage household incomes.

Jersey minimum wage (£6.53 – £261 weekly)*
UK National living wage (£7.45 – £298 weekly)**
London living wage (£8.55 per hour – £342 weekly)***

	Single	**Couple no children**		**Couple 2 children**	
		1 earner	**2 earners**	**1 earner**	**2 earners**
Income tax threshold	**£13,780**	**22,090**	**26,590**	**28,090**	**32,590**
Annual income 40h min wage*	**£13,582**	**13,582**	**27,164**	**13,582**	**27,164**
Tax to pay	**0**	**0**	**155**	**0**	**0**
Annual income Low wage £6.80	**£14,144**	**£14,144**	**28,288**	**£14,144**	**28,288**
Tax to pay	**£152**	**0**	**£458**	**0**	**0**
Income NLW**	**£15,496**	**15,496**	**30,992**	**15,496**	**30,992**
Tax to pay	**£463**	**0**	**1,118**	**0**	**0**
Income LLW***	**£17,784**	**17,784**	**35,568**	**17,784**	**35,568**
Tax to pay	**£1,081**	**0**	**2,424**	**0**	**804**

It is notable that for earnings close to the tax threshold, small changes in rates of pay can produce marked changes in tax due. The small rise from the minimum wage (£6.53) to the rate labelled by the Statistics Unit as "low-wage" (£6.80) brings single persons into tax and triples the tax due for couples without children where both work for a low wage.

If, as previously, we were to lift only the 60% of the 4,600 low-wage earners who have permanent contracts on to a living wage (LLW) then an estimate for the income tax revenue produced might be up to –

2,760 x £1,500 (average) = £4 million.

The total savings or additional income generated for States revenues may be seen to be up to some £14 million.

Introduction

The introduction of the living wage into the UK and other economies has been driven by a variety of stakeholders, ranging from anti-poverty campaigners, employers, and local and national government.

Local and national government are often at the forefront of such initiatives, often wishing to set an example as "best practice" employers with relatively good terms and conditions. Often there is little or no impact on wage costs in the public sector. For example, there are currently only 11 employees, all of whom are on trainee/ apprenticeships, on rates lower than the LLW in States' employment, as follows:

Paygroup/ grade	Headcount - Jan 2013	Hourly rate 2013
Civil Service age 16	2	£6.95
Civil Service age 17	1	£7.91
Manual Worker age 16	1	£6.73
Manual Worker age 17	1	£8.29
Manual Worker apprentice (1st year)	1	£7.23
Manual Worker apprentice (2nd year)	5	£7.23 to £7.59
Total	**11**	

As shown in Appendix 1, it may be that a phased introduction to, say, 90% of the living wage, may be appropriate to avoid severe shocks to some sectors of the economy. However, the lead set by government as the largest employer, and a major contractor of services on the Island, could be a significant influence. A commitment that no contract for the supply of services or employment to the States will be undertaken with any company that does not reach a minimum standard with respect to the living wage would soon have a significant effect.

Financial and manpower implications

The adoption of a living wage has no direct financial cost to the States as employer. Depending on the level at which it is set, it might produce some £14 million annually, in reduced benefit payments and tax revenues, as described above. The engagement of an appropriate researcher on contract, to produce a report in this timescale, should cost no more than between £10,000 and £20,000 to be sourced from the budget of the Chief Minister's Department.

APPENDIX 1

AVERAGE FIRM-LEVEL WAGE BILL COST OF A LIVING WAGE

Drawing on the individual firm-level results of 79 UK companies listed on the LSE, Figure 4 (*shown on the next page*) provides an estimate of the *average* wage bill increase (as a percentage of the total wage bill) that typical listed companies in 7 industrial sub-sectors would be likely to incur as a result of paying all their staff an hourly rate of at least a full living wage (scenario 1) or 90% thereof (scenario 2).

The results make clear that the estimated average wage bill increase as a result of implementing a living wage across different industrial sub-sectors is closely associated with the proportion of jobs currently paying less than a living wage within them. The results show that the estimated average wage bill increase as a result of introducing a full living wage (scenario 1, or £8.30 per hour in London and £7.20 per hour elsewhere) is significant in the major low-wage sectors of general retailers, food and drug retailers, and bars and restaurants (yielding an increase of between 4.7 and 6.2%) while relatively small in other sectors (an increase of around 1.0% or less).

Not surprisingly, the size of the estimated average wage bill increase resulting from the introduction of an initial hourly pay rate of 90% of a full living wage (scenario 2, or £7.47 in London and £6.48 elsewhere) is substantially lower across all sampled sectors, but particularly in major low-wage sectors. Under this scenario, there is still a degree of variation across industrial sub-sectors linked to the proportion of jobs paying below a living wage.

However, the estimates show that the average wage bill increases associated with the introduction of pay floor of 90% of the living wage are far lower in the major low-wage sectors of general retailers, food and drug retailers, and bars and restaurants (an increase of between 2.0 and 2.6%) and extremely small in other sectors (an increase of less than 0.4%).

This suggests that for those firms in industrial sectors which contain a high incidence of low-paid work, there may be merit in exploring whether implementing a living wage becomes more feasible if a full living wage rate could be phased in over time, thereby reducing upfront wage bill costs.

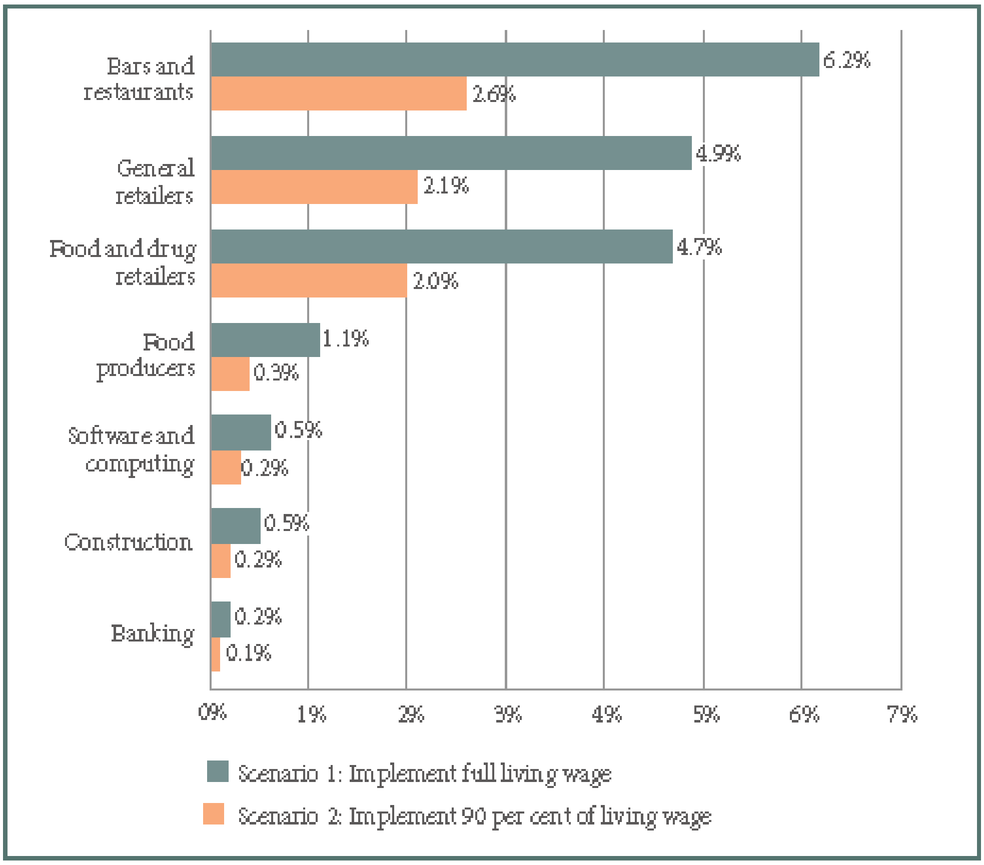

Figure 4: Average firm-level wage bill increase by industrial sub-sector

APPENDIX 2

Low-paid staff (£6.80 or less)

Sector	Total Headcount	Low-paid Staff	Low-paid as %
Agriculture and fishing	2,037	900	44%
Manufacturing	1,217	~	~
Electricity, gas and water supply	509	~	~
Construction and quarrying	4,886	~	~
Wholesale and retail trades	8,507	400	5%
Hotels, restaurants and bars	5,902	2,000	34%
Transport, storage and communication	2,552	~	~
Financial and legal activities	12,660	~	~
Other business activities	8,854	1,100	12%
All	**47,124**	**4,600**	**10%**

Low-paid staff (£6.80 or less)

Sector	Permanent	contract
Agriculture and fishing	48%	52%
Manufacturing	~	~
Electricity, gas and water supply	~	~
Construction and quarrying	~	~
Wholesale and retail trades	83%	17%
Hotels, restaurants and bars	63%	37%
Transport, storage and communication	~	~
Financial and legal activities	~	~
Other business activities	49%	51%
All	**59%**	**41%**

Minimum wage staff

Sector	Total Headcount	Minimum wage staff	Minimum wage as %
Agriculture and fishing	2,037	600	29%
Manufacturing	1,217	~	~
Electricity, gas and water supply	509	~	~
Construction and quarrying	4,886	~	~
Wholesale and retail trades	8,507	200	2%
Hotels, restaurants and bars	5,902	1,300	22%
Transport, storage and communication	2,552	~	~
Financial and legal activities	12,660	~	~
Other business activities	8,854	800	9%
All	**47,124**	**2,900**	**6%**