STATES OF JERSEY

MINIMUM WAGE: REVISED HOURLY RATE FROM 1ST APRIL 2015

Lodged au Greffe on 15th December 2014
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 Minister for Social Security –

(a) to revoke the Employment (Minimum Wage) (Amendment No. 8) (Jersey) Order 2014, scheduled to come into force on 1st April 2015 and, having sought the further views of the Employment Forum as required by Article 18(1) of the Employment (Jersey) Law 2003, to make a new Order fixing the minimum wage at £6.88 per hour from 1st April 2015 and, as this figure is different from the £6.78 rate originally recommended by the Forum, to report to the States as required by Article 18(4) of the Employment (Jersey) Law 2003; and

(b) to investigate the impact of a significant rise in the minimum wage, sufficient to lift recipients out of relative low income, on the tax and benefits system, and to assess the impact that any changes arising from the review of the UK minimum wage to be conducted by Sir George Bain in association with the Resolution Foundation might have on the structure and level of the Jersey minimum wage, and to report to the States by September 2015.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

This proposition has 2 distinct but linked parts –

Part (a) seeks to put in place an adjustment to the minimum wage recommendation for 2015 in line with the policy contained in P.26/2010 previously supported by the States.

Part (b) follows recommendations made in the scrutiny review of benefit levels, S.R.3/2011, namely –

Recommendation 14 (Page 95)

The Minister for Social Security, in his own review of Income Support, must examine the interaction between the level of the minimum wage and the overall cost of Income Support.

Recommendation 16 (Page 101)

The Ministers for Social Security and Treasury and Resources must work together to reduce the overlap between Income Support levels and Income Tax thresholds at the lower end of the earnings distribution in order to correct inefficiencies and report their findings within 12 months.

To properly analyse where we are with the minimum wage in 2015, we need to return to principles which underpin it. I start therefore with the principles of the minimum wage outlined in R.C.1/2004 where members will find the following –

> "The Report and Proposition states that the principles of introducing a minimum wage are that a rate '*should support a competitive economy; be set at a prudent level; be simple and straightforward; and yet make a difference to the low paid.'* "

The aim is to provide a package that takes account of business realities but removes the worst cases of exploitation. Further, the first report of the UK Low Pay Commission on Minimum Wage (June 1998), on which our minimum wage proposals were based, suggested a number of potential benefits of introducing a minimum wage, including –

- Reducing 'in work poverty' – Initial results from the Income Distribution survey indicate that 10% of the working households in the sample fell below the low income threshold (before housing costs).
- Reducing inequalities of income in the working population – fairness.
- Removing the worst cases of exploitation – decency.
- Equality of opportunities between sexes and ethnic backgrounds.
- Encouraging investment in training, therefore benefiting the organisation.

Reducing "in work" poverty

In the face of the first 2 benefits of the minimum wage presented above, the Committee of the day took exception to its advisors' (OXERA) assertion that the main reasons for introducing a minimum wage are *"to achieve greater income equality and to alleviate poverty*."

Instead the Committee's stated aim was to provide "*decent pay for a fair day's work*", and *"not to alleviate poverty*".

To alleviate poverty, the Committee suggested an income support system to help those who are in need. This attitude led the Employment Forum to ignore the revelation in the 2002 IDS that some 10% of in-work households fell below the low income threshold, that is, into relative poverty. Instead, rather than use the minimum wage to alleviate this situation, the Committee preferred to rely on additional spending from taxation via an Income Support scheme, thus keeping households dependent upon benefits. One of the consequences for setting the minimum wage at too low a rate will be an increased burden on the support and benefits system.

In response to the inability of the minimum wage to lift working people out of poverty, the States agreed to P.26/2010, which stated –

"(a) that the minimum wage should be set at 45% of average earnings, to be achieved over a period of not less than 5 years and not greater than 15 years from April 2011; subject to consideration of economic conditions and the impact on competitiveness and employment of the low paid in Jersey, and

(b) to request the Employment Forum to have regard to this objective when making its recommendation on the level of the minimum wage to the Minister for Social Security."

Over the past 5 years, we have seen little change in percentage terms in the level of the minimum wage. The latest recommendation from the Employment Forum of a rise from £6.63 to £6.78, an increase in the hourly rate of 15p, fails to match the rise in the Average Earnings Index (AEI) for the year to June 2014 of 2.6% and leaves the minimum wage at 40.5% of average earnings.

The choice of £6.88 for the level of the minimum wage brings the minimum wage up to 41% of the average wage.

The definition of in-work poverty relates not to average (mean) earnings, currently standing at a weekly wage of £680 or an annual salary of £34,840, but to the median wage, which is £550 weekly or an annual figure of £28,600. Those who earn less than 60% of the median wage are defined as in relative poverty. As can be seen here those on the minimum wage or close to it clearly fall into this definition –

£6.78 x 40 x 52 = £14,102 / £28,600 = 49% of median wage.

To escape relative poverty the hourly rate for the minimum wage would need to be set at £8.25 in Jersey.

The impact of low and minimum wage employment on States revenues is difficult to measure but undoubtedly significant. One only has to look at the annual £70 million bill for income support, paid from tax revenues. Some 2,000 IS claims are from households where at least one person is in work representing over 40% of working age households claiming IS.

On top of this one can see the £60 million annual bill for supplementation, the sum required to top up the social security contributions for those whose salaries are less than £47,000, again funded by the taxpayer.

UK minimum wage review

Some radical rethinking of the role of the minimum wage is underway in the UK, as follows –

> *"The UK is at risk of creating a two-tier labour market in which growing numbers of workers earn little more than the legal minimum, the founding chair of the government's Low Pay Commission has warned.*
>
> *Professor Sir George Bain said that without new thinking on the minimum wage there was a risk the purpose of the commission would be perverted and it might even turn into a drag on wages.*
>
> *Bain is returning to chair a review of how the minimum wage and the role of the commission that sets it might be strengthened. He says his expert panel, set up with the help of the respected Resolution Foundation think tank, will consider options such as helping push up wages in certain sectors that can afford to pay more.*
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> *'When we began our work in 1997, we saw jobs being advertised at 100 hours a week for £1 an hour. That sort of low pay is gone. But with one in five workers still earning below the living wage it's time to reflect on whether the design of the minimum wage is right for the next 15 years.'*
>
> *The commission has been seen as one of the great policy successes of UK politics and it is rare that its impact on the labour market is questioned.*
>
> *But a report from the Resolution Foundation has found that almost one in 10 jobs now pays within 50p of the minimum wage as the labour market has become increasingly 'bottom-heavy'.*
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> *The report finds one in 10 jobs (2.4 million) now pays within 50p of the minimum wage (£6.19 an hour at the full adult rate). That 10% figure rises to 12% among women, 22% among part-time workers, 18% in the retail sector and 42% in hospitality. These numbers exclude any unofficial underpayment.*
>
> *In the early days of the minimum wage it was anticipated it would raise pay across the low-wage economy, but in practice it has mostly helped those at the very bottom. In some sectors, employers are taking on millions of very low paid workers with little chance of progression.*
>
> *'We created the minimum wage to stop extreme exploitation, yet some employers now see it as the going rate for entry-level staff,' Bain said. 'That's not what it was supposed to do.'*

When the Chancellor, George Osborne, speculates that a rise in the UK minimum wage from £6.50 per hour to over £7, might be called for, even in this time of continued recession, perhaps it is time to act to raise our own minimum.

Minimum wage and in-work poverty

Let us now estimate the cost to the taxpayer of minimum wage employment. Take the simplest case of a single person with no children in a minimum wage job and paying rent for a 1-bed flat. His take-home pay for a 40-hour week is £255, out of which he pays £170 per week in rent. He is eligible to claim £132 per week in Income Support. This is a total of £6,860 per year in support. He will also have his social security contributions topped up through supplementation by some £2,000 to produce net support of over £8,000 annually.

This is of course a minimum. If we were to add a child under 5 and a partner who looks after the child and move them into a 2-bed flat, the Income Support bill rises to £338 weekly or £17,500 per year. Add in supplementation and one has a total subsidy of around £19,000 per year.

The Statistics Unit has suggested previously that there may be some 4,600 low paid jobs including those on minimum wage in the retail, hospitality and other sectors. Of these some 2,000 are permanent posts. More recently the Population Office has produced the table that follows in its report on the Interim Population Policy: 2014 – 2015, P.10/2014 –

Migrant employment by sector and residential status: 31st December 2012

Employment sector	**Licensed**	**Registered**	**Total (R & L)**	**Entitled/Entitled to work**	**Total**
Hotels, Bars and Restaurants	20	1,870	1,890	3,270	5,160
Wholesale and Retail	60	720	780	7,560	8,350
Agriculture and Fishing	0	–	300	1,230	1,530
				12,060	15,040

This shows that in the low-paid sectors of the economy some 80% of the workforce is entitled or entitled to work. These employees all have a minimum of 5 years residence. They will therefore be eligible to claim income support. Overall they are one quarter (25%) of the working population. Some of these will be on the minimum wage. Many, or most, will be earning close to the minimum wage.

If only one third of these low-paid employees (4,000) were claiming Income Support to help with their living costs, the costs to the taxpayer, as outlined above, are indeed significant.

Income Support	= 4,000 x £6,000 = £24 million per year	
Supplementation	= 4,000 x £2,000 = £8 million	
		Total support costs £32 million

A rise in the minimum wage of 25 pence per hour, as proposed here, would produce a saving to the taxpayer of over £2 million per year:

0.25 x 40 x 52 = £520 x 4,000 = £2.08 million.

A rise sufficient to take claimants out or relative low income (hourly rate £8.25) would produce significant savings:

£1.62 x 40 x 52 = £3,370 x 4,000 = £13.5 million.

One can also examine the potential effect of increased revenues in income tax and social security contributions from improvements to the minimum wage, as follows:

Social Security Contributions –

On a 25p hourly rise (£6.88):

0.25 x 40 x 52 = £520 x 12.5% = £65 x 4,000 = £260,000.

On a rise above low income levels (£8.25):

£1.62 x 40 x52 = £3,370 x 12.5% = £421 x 4,000 = £1.68 million.

Income tax changes are more difficult to assess, as not only do the tax thresholds overlap or border income support levels, but there are changes in tax rates and thresholds in recent times to account for.

In 2014, the hourly minimum wage was £6.63, this produces an annual income of £6.63 x 40 x 52 = £13,790.
Tax threshold = £14,000.
No tax due.

For 2015, the hourly rate at £6.78 produces taxable income of £14,102.
The tax threshold is set at £14,200.
No tax due.

Raising the minimum wage to £6.88 produces income of £14,310, which brings the single wage earner into income tax.
Tax due = 26% x £110 = £28.

The calculations above can only be very rough and ready. They are mere estimates and dependent on a whole variety of assumptions and approximations, which make them unreliable. We know that there must be a connection between the minimum wage and the level of income support and supplementation. At a time when we have seen the need for urgent measures to close the shortfall in tax revenues in the 2015 Budget, we cannot ignore the expenditure of £150 million on supplementation and IS. Part (b) asks the Minister to bring some reliable figures on the interaction of minimum wage, benefits and tax in a report to the States.

Financial and manpower implications

The additional 10p on the level of the minimum wage in part (a) will reduce the bill for income support/supplementation by £224 for each low wage claimant. There is no manpower requirement.

Given the department's commitments to develop policy in discrimination, zero-hours and the living wage, it is likely that the Minister would chose to outsource this work to external expertise. Examination of previous tax funded reports commissioned by the Social Security Department indicates that such a report might cost £20,000.