
STATES OF JERSEY



LIVING WAGE AND MINIMUM WAGE – INVESTIGATION OF STATUTORY AND OTHER FRAMEWORKS

Presented to the States on 18th December 2023
by the Minister for Social Security

STATES GREFFE

REPORT

Living wage and minimum wage – investigation of statutory and other frameworks

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Executive summary

This report has been commissioned by the Minister for Social Security and provides evidence, discussion and conclusions in respect of two States decisions related to the role of government in setting statutory minimum wage rates.

The statutory basis for the minimum wage in Jersey is similar to that established in neighbouring jurisdictions and the local Employment Forum provides a similar independent review function to the Low Pay Commissions and similar bodies established in other jurisdictions.

Alongside the statutory framework of minimum wage legislation, voluntary living wage organisations have been set up in several countries. These organisations undertake independent research and set living wage rates within their own area. There is no agreed methodology for the calculation of a living wage and each living wage organisation has its own approach. In general, organisations take account of household costs and the benefit and tax system within the area as part of their calculations. Household costs are identified in a variety of ways but with a common theme of agreeing a weekly budget for a household to meet its basic needs. These organisations campaign for employers to increase wages above the statutory minimum. No government has incorporated this type of approach into a statutory minimum wage system.

However, the UK and Irish governments have taken steps to increase minimum wage rates and rebrand the statutory minimum wage rate as a “National Living Wage” (UK). The approach taken here is to measure the minimum wage rate against the median full-time wage in the economy. The UK has set a target of 2/3 median wage by 2024 and Ireland 60% of median wage by 2026. Jersey has a similar existing commitment to aim for the minimum wage to reach a target of 2/3 median wage by the end of 2024. In each case the target is subject to economic and other conditions prevailing at the time, and the target is not enshrined in legislation.

The conclusions drawn from the evidence are that statutory wage rates need to be subject to adjustment in line with economic conditions from time to time and a statutory link to a specific formula or target could be counterproductive.

The impact of the voluntary living wage campaigns has been positive in creating a moral framework within which employers should consider their wage levels and encouraging governments to move to higher levels of statutory minimum wage.

The report conclusions are:

1. The existing statutory framework for minimum wage setting within the Employment (Jersey) Law 2005 is fit for purpose.

2. It is not feasible or desirable to introduce a statutory living wage rate for Jersey based on a calculation of minimum income standards.
3. The commitment made in P.98/2021 to maintain a target of bringing the minimum wage up to a percentage of median wage should be maintained, but firmly based on economic conditions at the time. Current economic conditions suggest that reaching the 2/3 target at the end of 2024 is unlikely to be achieved.
4. The use of the term “national living wage” to describe the statutory minimum wage is confusing and should not be adopted in Jersey.

Introduction

This report was commissioned by the Minister for Social Security and it responds to two States decisions that relate to the role of government in setting statutory minimum wage rates.

- [P.98/2021 as amended part \(a\)](#) set a target for the minimum wage to reach 2/3 of the median wage by the end of 2024, subject to economic conditions.
- [P.78/2022 as amended part \(c\)](#) agreed that a review should be undertaken by the end of 2023 to investigate the feasibility of converting a statutory minimum wage to a statutory living wage.

See Appendix 1 for the full text of each decision. This review considers these existing States commitments in the context of local and international evidence.

Minimum wage setting – legislative frameworks

This section considers the legislation and methods used in a number of countries to investigate and set minimum wage rates. See Appendix 2 for full details of the legislation in each country.

Jersey

The [Employment \(Jersey\) Law 2003](#) provides the local legal framework for a statutory minimum wage. In summary, the Minister for Social Security can only set a minimum wage rate after the Employment Forum has reported back on its consultation for a new rate. In undertaking that consultation, the Forum must consult with employer and employee organisations and other organisations. In particular the Forum must also consider the impact of any new wage rate on:

- the economy of Jersey as a whole
- competitiveness
- any other factors specified by the Minister

Whilst the law does not specify how often the minimum wage should be reviewed, in practice the Forum has investigated the level of minimum wage rate each year since the introduction of a statutory minimum wage, (with the exception of the Covid period which disrupted the ability to undertake the normal consultation process). The current minimum wage is £10.50 ph. This will rise from 1/1/24 in line with the June headline RPI figure of 10.9 % to produce a minimum wage of £11.64 ph.

Other jurisdictions

The structure of the Jersey law in respect of minimum wage setting is similar to that used in neighbouring jurisdictions and commonwealth countries.

UK - Statutory minimum wage rates in the UK are set through the [National Minimum Wage Act 1998](#). The UK has set up an independent Low Pay Commission which makes recommendations to the government on minimum wage rates. The factors to be taken account in the UK and the Jersey legislation are the same.

Ireland -The Irish government has also set up an independent Low Pay Commission which has statutory responsibilities in respect minimum wage rates. The [Irish law](#) sets out a comprehensive list of areas to be taken into account by the Commission in making its recommendations.

Isle of Man -The [Minimum Wage Act 2001](#) provides the statutory basis for minimum wage rates in the Isle of Man. Rates are set by the government following a recommendation from the independent Minimum Wage Committee. The Isle of Man follows a similar approach to the Jersey legislation but with additional areas included in the independent committee's remit.

Guernsey -Minimum wage rates in Guernsey are set directly by the government, without the use of a Low Pay Commission type organisation. The government has a duty to consult similar to that used in the UK and Jersey. The [Minimum Wage \(Guernsey\) law 2009](#) includes a list of factors to be considered in the setting of a rate.

New Zealand - New Zealand [minimum wage legislation](#) requires an annual review by the government of the current minimum wage rates. The review does not need to lead to a change in rates.

Discussion

Under Jersey legislation, the Employment Forum takes account of the impact of the minimum wage rates on the Jersey economy and on competitiveness. Legislation in other countries also identifies factors to be taken into account when setting a minimum wage and follows a similar pattern to Jersey in that the factors typically relate to economic conditions in the jurisdiction.

In the context of a potential move to a statutory living wage, it is noted that some countries do include factors specific to workers in their legislation. However, these factors are clearly

linked to labour market issues such as the level of employment rather than more general factors such as the cost of living.

The Employment Forum has made the following comment on the need for changes to the local legislation in this area. Its letter dated 22/11/23 states:

“ Thank you for your invitation to consider the need for any changes to the areas that must be taken into account by the Forum when it conducts a minimum wage review. The relevant provisions in the Employment Law are contained in Article 20 of the Law. The view of the Forum is that changes to the scope of criteria to be taken into account are matters principally for Ministers to decide. What the Forum does consider, however, is that the current provisions contained in Article 20 are sufficiently flexible and broad to accommodate additional criteria which the Minister may require the Forum to take account of, as set out in Article 20(5)(b). The Forum will always, of course, have in mind the specific directions of the Minister when undertaking any review of provisions in the Employment Law.”

Conclusion

The existing statutory framework for minimum wage setting within the Employment (Jersey) Law 2005 remains fit for purpose.

Review of living wage schemes

The term “living wage” has been used widely in recent decades but has no single meaning. Its use across different countries is considered below.

The use of living wage rates is found across a range of American cities. Typically, these are legally binding minimum wage rates set by local authorities that apply to employers who work on publicly funded contracts. These rates only apply to a minority of workers in that area. This paper does not develop this approach to living wage. The remainder of this review deals with the use of a rate that applies generally across the whole labour market and is not limited to government funded contracts.

Living wage calculations – voluntary organisations

“Living wage” movements have been set up in a number of countries over the last few decades. Typically, they are established by religious and other community-based organisations and they seek to encourage employers to offer a wage that is higher than the statutory minimum wage for that country. To that end employers are often licensed or approved by the local living wage body as “living wage” employers, to demonstrate their commitment to ethical business practices and to differentiate themselves from other employers.

Each living wage campaign has established its own calculation methodology for setting a voluntary living wage for that country. There is no agreed international standard.

On the income side, most campaigns assume that all adults in a household are working full time and pay relevant deductions and that the household takes advantage of all state benefits – such as housing, healthcare, transport and in-work benefits – for which it is eligible.

On the expenditure side, each scheme seeks to estimate household expenditure, using minimum income standard type calculations. Some schemes base their calculations on a single household model – a single adult without dependents (**Ireland**); or a single, two-adult two-dependent-children household (**Canada, New Zealand**); while others use a weighted average of different household types (**UK. IoM**).

Details of living wage calculations and systems in a number of countries are provided in Appendix 3.

Caritas Jersey provide a voluntary living wage for **Jersey**, under licence from the UK Living Wage Foundation. At present the Jersey Living Wage is set in line with the London Living Wage +2%. There are over 40 living wage employers in Jersey including GOJ. The Caritas living wage for 2023 is £12.19.

Prior to the involvement of Caritas, the introduction of a local voluntary living wage rate was considered and in 2015 a detailed government report on the introduction of a voluntary living wage was published. The website and reports can be accessed using the following links:

- [GOJ Living wage website](#)
- [Living wage report](#)
- [Living wage – summary report](#)
- [Living wage – economic impact assessment](#)

At the time, the overall conclusion of the investigation was reported as:

- a voluntary living wage is unlikely to have a significant impact on most low-paid workers
- the minimum wage plus income support in Jersey already satisfies the requirement for a living wage, when compared with existing schemes.

Discussion

There is no international evidence of governments making a move towards establishing statutory wage rate based on a household budget calculation. As set out in Appendix 3, each living wage organisation has chosen its own way of using household budgets to set a voluntary living wage. In terms of voluntary campaigns, the overall aim is to set a rate that is above the statutory minimum rate for that country and the exact nature of the calculation is less important.

In terms of a government choosing a methodology based on household budgets for a statutory rate, this could lead to considerable practical and political challenges in terms of:

- creating a robust process for determining the budgets across an agreed number of household types
- maintaining a clear process for updating the budgets and identifying the areas that would be updated each year, and those that would be reviewed on a periodic basis
- maintaining the operational capability to determine and then maintain the initial budgets
- addressing any challenges to the way in which the budgets are determined or maintained
- addressing challenges from individual groups in terms of what types of household group /expenditure should be included in the budgets
- maintaining a clear policy position on tax and benefit issues which would have an impact on the living wage rate
- maintaining the statutory rate developed from the budgets regardless of the economic conditions prevailing at the time

Conclusion

The option of embedding a minimum household income standard type calculation into minimum wage legislation to create a statutory living wage rate is not recommended. There is no international agreement as to the methodology behind these calculations and a formula embedded within legislation would prevent the annual adjustments that feature in existing voluntary schemes.

A formula driven rate, automatically imposed from year to year, could create significant disruption in the labour market and wider economy during times of rapid economic change. It is also unclear as to how voluntary organisations would respond to such a move. As campaigning organisations, they may seek to “move the goalposts” and set new targets.

Governmental approaches to “living wage” rates

The success of voluntary living wage campaigns to raise awareness of the impact of low wages has led to government action in a number of jurisdictions.

There is an important difference between the role of government and the role of campaigning organisations. Where a government introduces a living wage into legislation, it is creating a statutory requirement for all employers to meet that level.

In contrast, where a campaigning organisation sets a living wage, and encourages employers to sign up to that principle, it is providing a voluntary higher standard that employers can choose to aspire to. This creates differentiation within the labour market where some employers identify themselves as “living wage” employers as part of their overall business image.

Where governments (UK and Ireland) have taken action to increase minimum wage rates, they have not chosen to use the minimum income standard approach favoured by voluntary organisations. Rather than work from detailed household budgets, the governmental approach has been to measure the wage level against average (median) wages in the economy. This is a simpler approach based on statistics that are already collected in most countries. See Appendix 4 for more details.

Under this option, the wage floor is set at a percentage of the median wage - the rationale for this approach is that workers who are earning below the average in their economy, should not be too far below that average.

In the UK, the statutory minimum wage has been rebranded as the “National Living Wage” since 2015. It currently applies to workers aged 23 and above.

The first ambition of the UK NLW was to reach 60% of median pay by 2020. Once this was reached, the government set a new target at 2/3 of median wage, to apply to employees aged 21 and above, to be achieved by October 2024. The Low Pay Commission has flexibility within this overall target to recommend changes to the target, the date by which the target is achieved and the intermediate steps to achieve the target, depending on the economic circumstances at the time.

In November 2022, the Irish Government followed a similar “rebranding” move and [announced the introduction of a national living wage](#) to replace the minimum wage by 2026. The announcement explained that

“...the national living wage will be set at 60% of hourly median wages in line with the recommendations of the Low Pay Commission. It will be introduced over a four-year period and will be in place by 2026, at which point it will replace the National Minimum Wage.”

Once the new national living wage has come into effect, the Irish Low Pay Commission will assess the practicality of increasing the rate further to 66% of median hourly earnings.

Discussion

As set out in above and in Appendix 4, where the UK and Irish governments have committed to creating a “national living wage”, the approach taken to date has been to link these to a measure of median wage.

While a wage rate linked to median wages provides for a more transparent calculation, the additional step of embedding this in legislation has not been taken in other countries. In both the UK and Ireland, the Low Pay Commission is charged with providing recommendations to achieve target rates by a given year. In both cases, the Commission can make a different recommendation depending on economic circumstances at the time. This leaves the setting of statutory rates as an action which each year is subject to expert and political oversight and which has the flexibility to adjust to unforeseen circumstances.

Given the inevitable fluctuations in economic activity from year to year, it would be difficult to justify the introduction of a statutory rate which could not be adjusted when circumstances require it. The model of setting the local independent body a target and providing flexibility within that target gives clear direction to employers as to the aspirations of the government without binding the government to a calculated rate that may be economically damaging in a given year.

This is the current approach in Jersey, where the existing commitment in P.98/2021 as amended, takes account of economic conditions, and provides a clear direction to employers without creating an undue restriction on rate setting from year to year. Given the current level of minimum wage as measured against median (the 2024 minimum wage rate of £11.64 represents 58.2% of the current median wage), it is likely to be difficult to reach the 2/3 target by the end of 2024. For example, with the current (2023) median wage of £800 per week, the 2/3 target would give a minimum wage rate of £13.33 per hour.

The rebranding of the minimum wage as a national living wage does not make any practical difference to the level of the wage. It can however cause confusion and detract from the valuable campaigning work of voluntary living wage organisations. This name change is not recommended.

The Employment Forum has been consulted on a draft version of this report and a copy of their full response is provided in Appendix 5.

Report Conclusions

This review has examined the feasibility and desirability of establishing a statutory living wage rate for Jersey and the use of a target rate based on median wages.

In summary, the review concludes that

- The existing statutory framework for minimum wage setting within the Employment (Jersey) Law 2005 remains fit for purpose.
- It is not feasible or desirable to introduce a statutory living wage rate for Jersey based on a calculation of minimum income standards.
- The existing commitment to bring the minimum wage up to a percentage of median wage should be maintained but should not be incorporated into legislation.

- The existing target date is set subject to economic conditions, and it is unlikely that the target can be achieved by its original date. However the target should be maintained with the aim of reaching it as soon as economic conditions allow.
- The use of the term “national living wage” to describe the statutory minimum wage is confusing and should not be adopted in Jersey.

Appendix 1 - States decisions

Last year the States Assembly agreed part (c) of P.78/2022 as amended as follows::

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

(c) to request that the Minister for Social Security, further to the Act of the States dated 26th November 2021 (in which P.98/2021 (as amended) was adopted), ensures that all investigations including consultation and engagement with the Employment Forum in relation to the feasibility of devising a scheme to be brought to the States to convert the Minimum Wage over time to a Living Wage, including any legislative changes that may be necessary, be completed and presented to the States Assembly by end of December 2023

In 2021, P.98/2021 as amended was approved as follows: :

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

- (a) to set the objective of raising the minimum wage to two-thirds of median earnings by the end of 2024, subject to consideration of economic conditions and the impact on competitiveness and employment of the low paid in Jersey; and to request the Employment Forum to have regard to this objective when making its recommendations on the level of the minimum wage to the Minister for Social Security.
- (b) to request the Minister for Social Security, further to the Act of the States dated 20th April 2021 (in which P.11/2021 was adopted), which requested the Minister for Social Security, in accordance with Article 19(1) of the Employment (Jersey) Law 2003, to refer for examination to the Employment Forum the potential for the minimum wage be set at the level of the Jersey Living Wage, and if this were considered feasible, when the minimum wage could be set at that level, and following consultation with the Employment Forum and other stakeholders as appropriate, to examine the feasibility of devising a scheme to be brought to the States to convert the Minimum Wage over time to a Living Wage, including any legislative changes that may be necessary.

And to complete the background, here is part (c) of P.11/2021 (parts a and b were not approved)

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

- (c) to request the Minister for Social Security, in accordance with Article 19(1) of the Employment (Jersey) Law 2003, to refer for examination to the Employment Forum the potential for the minimum wage be set at the level of the Jersey Living Wage, and if this were considered feasible, when the minimum wage could be set at that level.

Appendix 2 - Minimum wage setting – legislative frameworks

Jersey

The [Employment \(Jersey\) Law 2003](#) provides the local legal framework for a statutory minimum wage. Article 18 requires the Minister to instruct the independent Employment Forum to investigate the level of the minimum wage before any change to minimum wage can be made.

The Forum is required to undertake its investigation in line with Article 20 which includes (4) and (5) as follows:

20 Referrals to, and reports of, the Employment Forum: supplementary

...

- (4) *Before arriving at the recommendations to be included in their report, the Employment Forum shall consult –*
- (a) *such organisations representative of employers as they think fit;*
 - (b) *such organisations representative of employees as they think fit; and*
 - (c) *if they think fit, any other body or person.*
- (5) *In considering what recommendations to include in their report, the Employment Forum –*
- (a) *shall have regard to the effect of this Law on the economy of Jersey as a whole and on competitiveness; and*
 - (b) *shall take into account any additional factors which the Minister specifies in referring the matters to them.*

...

In summary, the Minister can only set a minimum wage rate after the Forum has reported back on its consultation for a new rate. In undertaking that consultation, the Forum must consult with employer and employee organisations and other organisations. In particular the Forum must also consider the impact of any new wage rate on:

- the economy of Jersey as a whole
- competitiveness
- any other factors specified by the Minister

Whilst the law does not specify how often the minimum wage should be reviewed, in practice the Forum has investigated the level of minimum wage rate each year since the introduction of a statutory minimum wage.

The current minimum wage is £10.50 ph. This will rise from 1/1/24 in line with the June headline RPI figure of 10.9 % to produce a minimum wage of £11.64.

The structure of the Jersey law in respect of minimum wage setting is similar to that used in neighbouring jurisdictions and commonwealth countries.

UK

Statutory minimum wage rates in the UK are set through the [National Minimum Wage Act 1998](#). The UK has set up an independent Low Pay Commission which makes recommendations to the government on minimum wage rates. The UK legislation requires the Commission to consider the following:

Section 7

5) In considering what recommendations to include in their report, the Low Pay Commission—

(a) shall have regard to the effect of this Act on the economy of the United Kingdom as a whole and on competitiveness; and

(b) shall take into account any additional factors which the Secretary of State specifies in referring the matters to them.

In this respect, the Jersey Employment Forum plays a similar role to the UK Low Pay Commission. The factors to be taken account in the UK and the Jersey legislation are the same.

Ireland

The Irish government has also set up an independent Low Pay Commission which has statutory responsibilities in respect minimum wage rates. The [Irish law](#) sets out a comprehensive list of areas to be taken into account by the Commission in making its recommendations:

10B.—*The Commission in the performance of the functions assigned to it by section 10C shall make recommendations to the Minister regarding the national minimum hourly rate of pay that—*

(a) is designed to assist as many low paid workers as is reasonably practicable,

(b) is set at a rate that is both fair and sustainable,

(c) where adjustment is appropriate, is adjusted incrementally, and

(d) over time, is progressively increased,

without creating significant adverse consequences for employment or competitiveness.

Functions of Commission

10C.—

(1) Without prejudice to the generality of section 10B, the Commission shall once each year—

(a) examine the national minimum hourly rate of pay, and

(b) make a recommendation to the Minister respecting the national minimum hourly rate of pay.

(2)

(a) A recommendation under this section shall be accompanied by a report on the matters considered when making the recommendation.

(b) A recommendation and report under this section shall be furnished to the Minister on or before the third Tuesday falling in July in the year to which the examination relates.

(3) When making a recommendation under subsection (1)(b), the Commission shall have regard to—

- (a) changes in earnings during the relevant period,*
- (b) changes in currency exchange rates during the relevant period,*
- (c) changes in income distribution during the relevant period,*
- (d) whether during the relevant period—*
 - (i) unemployment has been increasing or decreasing,*
 - (ii) employment has been increasing or decreasing, and*
 - (iii) productivity has been increasing or decreasing,*

both generally and in the sectors most affected by the making of an order under section

*10D (inserted by **section 8** of the Act of 2015),*

(e) international comparisons, particularly with Great Britain and Northern Ireland,

(f) the need for job creation, and

(g) the likely effect that any proposed order will have on—

- (i) levels of employment and unemployment,*
- (ii) the cost of living, and*
- (iii) national competitiveness.*

Isle of Man

The [Minimum Wage Act 2001](#) provides the statutory basis for minimum wage rates in the Isle of Man. Rates are set by the government following a recommendation from the independent Minimum Wage Committee.

The [Minimum Wage Committee Regulations 2002](#) require the Committee to take account of the following factors in making their recommendation:

- a) The wider social and economic implications of any minimum wage to be prescribed under Section 1 (3) of the Act:*
- b) Its likely effect on –*
 - (i) Employment, especially amongst disadvantaged groups;*
 - (ii) Inflation;*
 - (iii) Its impact on the costs and competitiveness of businesses;*
 - (iv) The costs of industry and public authorities in the Island;*
- b) Its impact on pay, employment and competitiveness in low paying sectors and small businesses;*
- c) Its effect on different groups of workers;*
- d) The effect on pay structures;*
- f) The interaction between minimum wage rates and the tax and benefit systems.*

This is a similar approach to the Jersey legislation but with additional areas included in the independent committee's remit.

Guernsey

Minimum wage rates in Guernsey are set directly by the government, without the use of a Low Pay Commission type organisation. The government has a duty to consult similar to that used in the UK and Jersey. The [Minimum Wage \(Guernsey\) law 2009](#) includes a list of factors to be considered in the setting of a rate.

Factors to be taken into account.

6. Before making regulations under section 1(3), 2(1) or 3(1), the [Committee] shall consider and take into account –

- (a) the current rate of the minimum wage in the United Kingdom, the Isle of Man and Jersey,*
- (b) the current economic and trading conditions prevailing in Guernsey,*
- (c) the rate of inflation in Guernsey,*
- (d) the rate of unemployment in Guernsey,*
- (e) current rates of pay in Guernsey,*
- (f) the increase or decrease in rates of pay in Guernsey over the previous twelve months, and such other factors as appear to it to be relevant.*

New Zealand

New Zealand [minimum wage legislation](#) requires an annual review by the government of the current minimum wage rates. The review does not need to lead to a change in rates.

Appendix 3 – International review of living wage schemes

The term “living wage” has been used widely in recent decades but has no single meaning. Its use across different countries is considered below.

Living wage calculations - United States of America

The use of living wage rates is found across a range of American cities. Typically, these are legally binding minimum wage rates set by local authorities that apply to employers who work on publicly funded contracts. These rates only apply to a minority of workers in that area.

Living wage calculations – voluntary organisations

“Living wage” movements have been set up in a number of countries over the last few decades. Typically, they are established by religious and other community-based organisations and they seek to encourage employers to offer a wage that is higher than the statutory minimum wage for that country. To that end employers are often licensed or approved by the local living wage body as “living wage” employers, to demonstrate their commitment to ethical business practices and to differentiate themselves from other employers.

Each living wage campaign has established its own calculation methodology for setting a voluntary living wage for that country. There is no agreed international standard.

On the income side, most campaigns assume that all adults in a household are working full time and pay relevant deductions and that the household takes advantage of all state benefits – such as housing, healthcare, transport and in-work benefits – for which it is eligible.

On the expenditure side, each scheme seeks to estimate household expenditure. Some schemes base their calculations on a single household model – a single adult without dependents (**Ireland**); or a single, two-adult two-dependent-children household (**Canada, New Zealand**); while others use a weighted average of different household types (**UK, IoM**).

UK

In the UK, the Living Wage Foundation (LWF) works with the Resolution Foundation to undertake the detailed calculations that sit behind the hourly rate. In its September 2022 [report](#), the Resolution Foundation explained:

“The basic intuition behind the Living Wage is a simple one: to determine the wage rate necessary to ensure that households earn enough to reach a minimum acceptable living standard as defined by the public. Translating this intuitive idea into practice, however, requires a wide range of data, assumptions and judgments to be brought together on issues

ranging from the appropriate measurement of various household costs, to the nature of government support available to different families¹.”

And

“The calculation of the Living Wage is rooted in a clear methodology, but changes in the economic and policy context mean there are inevitably judgements to be made each year.”

The process developed by the Resolution Foundation in the UK is a complex one, based on the concept of a Minimum Income Standard (MIS). Field work on Minimum Income Standards produces budgets for different household types, based on what members of the public think is needed for a minimum acceptable standard of living in the UK. Budgets are calculated for a range of different households, taking account of wages, taxes, benefits and household expenditure. A weighted average is then taken across household types to produce a single hourly rate.

The calculation of household budgets from scratch is time consuming and is not undertaken every year. For most years the annual rate is set following a review of any significant changes in living costs, tax and benefit regimes in the previous 12 months to provide an adjustment for the coming year. The household budgets themselves are reset from time to time.

Inevitably this process will result in the final living wage rate being higher than that calculated for some household types and lower than calculated for others. Living wage campaigners recognise this issue - the ultimate aim of living wage movements is to campaign for higher wages for low wage groups rather than to directly address the household needs of specific low wage households.

Example:

The calculation for the UK living wage takes account of many household types. By household type for 2022-2023,

- the hourly rate calculated for a single person is £7.67.
- the hourly rate calculated for a single person with one primary age child is £15.57
- the hourly rate calculated for a couple with two preschool children is £11.19

Across all household types considered, the hourly rate ranges from £7.67 to £32.53. The single calculated living wage rate derived from these figures is £10.90. A similar but separate calculation is used to set a London rate, which is currently £11.95.

Jersey

Caritas Jersey provide a voluntary living wage for **Jersey**, under licence from the UK Living Wage Foundation. At present the Jersey Living Wage is set in line with the London Living Wage +2%. There are over 40 living wage employers in Jersey including GOJ. The Caritas living wage for 2023 is £12.19.

¹ N Cominetti & L Murphy , *Calculating the Real Living Wage for London and the rest of the UK: 2022, Resolution Foundation, September 2022*

Prior to the involvement of Caritas, the introduction of a local voluntary living wage rate was considered and in 2015 a detailed GOJ report on the introduction of a voluntary living wage was published.

The website and reports can be accessed here:

- [GOJ Living wage website](#)
- [Living wage report](#)
- [Living wage – summary report](#)
- [Living wage – economic impact assessment](#)

The overall conclusion of the investigation was reported as:

- “a voluntary living wage is unlikely to have a significant impact on most low-paid workers
- the minimum wage plus income support in Jersey already satisfies the requirement for a living wage, when compared with existing schemes.”

Isle of Man

Following a 2017 decision of the Tynwald to provide for a living wage rate for the Isle of Man, it was not possible to find a local voluntary organisation to produce a rate. The government took on the responsibility, which now sits with the Isle of Man Statistics Unit.

The calculation of a Living Wage rate is based on the UK Living Wage Foundation model. The UK basket of goods is modified to take into account of differences between the Isle of Man and the UK in specific areas of household spending. 13 household types are then used to create a weighted average. The rate for 2023/24 was published in [a report](#) in July 2023. The new living wage rate is £12.01.

While the government publishes this figure on an annual basis, it is not mandatory, and the government continues to set the mandatory minimum wage rate. This was set at £10.75 in April 2023.

Canada

In Canada the level of the voluntary Living Wage varies from province to province. For example, in British Columbia, a calculation of the Living Wage is based upon the hourly amount that each of two working parents with two young children must earn to meet their basic expenses (including rent, childcare, food and transport) once government taxes, credits, deductions and benefits are taken into account.

The Living Wage campaign in British Columbia emphasises that in a province so diverse, communities differ when it comes to their cost of living. For example, while some communities may have lower housing or childcare costs, others may have lower-cost public transport or easier access to goods and services. The argument is that regional calculations, as opposed to national ones, enable communities to better reflect the actual cost of living and the most appropriate Living Wage rate.

Ireland

In Ireland, the living wage campaign is run by Living Wage Ireland. This organisation bases its calculations on a single person household. Information is gathered across four geographic areas with a weighted average taken based on population size to determine the final figure. Household budgets are agreed by focus groups. Unlike most other living wage organisations, the Irish scheme does not include employer accreditation. The [2023 report](#) set a living wage rate of 14.80 euros, compared to the current minimum wage rate of 11.30 euros.

New Zealand

In New Zealand, the new voluntary hourly rate of NZ\$ 26.00 for the Living Wage came into effect on 1 September 2023. The current minimum wage rate is NZ\$22.70.

The new living wage rate follows a periodic review of base data to set a new rate. The NZ approach is to take expenditure data from official statistics, rather than use focus groups. Where costs are based on household expenditure surveys, this is derived from the average actual cost of households with below average (median) income,

The New Zealand approach uses a single household type of two adults and two children with one full time worker, and one part time worker.

The recent [report](#) from the new Zealand Living Wage Movement Aotearoa NZ provides a useful summary of the role of voluntary organisations in this field:

The NZLW is not compulsory, nor is any living wage movement in the world seeking to make it compulsory. It carries moral force and tests business ethics. A living wage enables an employer to know that what s/he pays a worker is sufficient for them to live modestly and participate in society. It has proved very attractive to many employers and studies show it pays off in terms of morale and productivity

As in Jersey, the New Zealand government has signed up as a living wage employer.

Appendix 4 - Use of median wage calculations to set a minimum wage

Where governments (UK and Ireland) have taken action to increase minimum wage rates, they have not chosen to use the minimum income standard approach favoured by voluntary organisations. Rather than work from detailed household budgets, the governmental approach has been to measure the wage level against average (median) wages in the economy. This is a simpler approach based on statistics that are already collected in most countries.

Under this option, the wage floor is set at a percentage of the median wage - the rationale for this approach is that workers who are earning below the average in their economy, should not be too far below that average.

The use of median as the measure is important.

The median wage is identified as the wage of the worker so that half of workers less than the median worker and half earn more. (based on full time equivalents)

Increasing the wages of the lowest or highest paid does not change the median wage directly. As a very simple example:

Wages of a group are

£300, £400, £500, **£600**, £700, £800, £900

The median wage (the one in the middle) is £600.

Increasing the wages at the bottom end of the distribution does not necessarily change the median.

e.g.

£400, £400, £500, **£600**, £700, £800, £900

The median wage (the one in the middle) is still £600. The wages of the lowest paid have increased to 2/3 of the median.

In the same way, increasing the wages at the top end of the distribution does not necessarily change the median.

e.g.

£300, £400, £500, **£600**, £750, £850, £950

The median wage (the one in the middle) is still £600. The wages of the highest paid have all increased.

In reality, increasing wages at the lower end will typically have some level of “trickle up” effect, but this will act to improve wages at lower and middle ranges, having little overall impact on higher wage levels.

While the use of a median figure is simpler than a household budget calculation, there are still technical issues to consider.

At a time of rising unemployment, jobs may be disproportionately lost from the lower end of the labour market. This can have the effect of pushing the median upwards, as the number of lower paid workers decreases faster than the number of higher paid workers. Tracking the median in this situation may be counterproductive as it would increase the cost of labour

when government policy may be to encourage employers to take on extra staff who are currently unemployed.

It is also important that the methodology to calculate the median is robust and takes full account of the characteristics of the local labour market.

Looking at jurisdictions where action has been taken along these lines:

UK

In the UK, the statutory minimum wage has been rebranded as the “National Living Wage” since 2015. It currently applies to workers aged 23 and above.

The first ambition of the UK NLW was to reach 60% of median pay by 2020. Once this was reached, the government set a new target at 2/3 of median wage, to apply to employees aged 21 and above, to be achieved by October 2024. The Low Pay Commission has flexibility within this overall target to recommend changes to the target, the date by which the target is achieved and the intermediate steps to achieve the target, depending on the economic circumstances at the time.

The [UK Chancellor has recently confirmed](#) that he will accept the Low Pay Commission recommendations for the NLW for April 2024 – these will be published in November.

Ireland

In November 2022, the Irish Government [announced the introduction of a National Living Wage](#) to replace the minimum wage by 2026. The announcement explained that

“...the national living wage will be set at 60% of hourly median wages in line with the recommendations of the Low Pay Commission. It will be introduced over a four-year period and will be in place by 2026, at which point it will replace the National Minimum Wage.”

Once the new Living Wage has come into effect, the Irish Low Pay Commission will assess the practicality of increasing the rate further to 66% of median hourly earnings.

Isle of Man

In July 2021, the Isle of Man Tynwald agreed with a [recommendation of the Select Committee on poverty](#) that there should be a transition of the national minimum wage to a national living wage by 2026. The [Our Island Plan document for 2023](#) indicates action in 2025 against this target. There are currently no published details as to how this will be achieved.

Appendix 5 – Employment Forum Comments



22 November 2023

Dear Deputy Millar,

Minimum Wage/Living Wage project

Thank you for your letter of 14 November 2023 enclosing a copy of your draft report into the feasibility of converting the minimum wage to a living wage and your invitation to the Employment Forum to comment upon the report.

The members of the Employment Forum met yesterday to discuss the recommendations made in your report and the basis for those recommendations.

We note your recommendation that "*it is not feasible or desirable to introduce a statutory living wage rate for Jersey, based on a calculation of minimum income standards*". As a nonpolitical body, the Employment Forum does not proffer views on whether a statutory minimum wage or a statutory living wage is more apposite. However, to the extent that it is helpful, you will recall that the Forum briefly discussed living wage in its [Minimum Wage, Trainee and Offsets Report 2022/2023](#) and [Minimum Wage and Offsets Report 2023](#).

The commitment made by the States Assembly (in P.98/2021) to aim to increase the statutory minimum wage to two-thirds of median wage by the end of 2024 is, as you know, one of the factors which the Forum has considered in making its minimum wage recommendations in recent years. This target is politically determined; the Forum makes no observation on its suitability or likelihood of being met. The Forum will continue to take account of such target (or any replacement) as directed by the Minister in future reviews.

Thank you for your invitation to consider the need for any changes to the areas that must be taken into account by the Forum when it conducts a minimum wage review. The relevant provisions in the Employment Law are contained in Article 20 of the Law.

The view of the Forum is that changes to the scope of criteria to be taken into account are matters principally for Ministers to decide. What the Forum does consider, however, is that the current provisions contained in Article 20 are sufficiently flexible and broad to accommodate additional criteria which the Minister may require the Forum to take account of, as set out in Article 20(5)(b). The Forum will always, of course, have in mind the specific directions of the Minister when undertaking any review of provisions in the Employment Law.

I hope this is helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carla Benest', written in a cursive style.

Carla Benest
Chair, Jersey Employment Forum