

BACKGROUND PAPER

MINIMUM WAGE

2015 REVIEW



Issued by the Employment Forum on 27 May 2015

Deadline for responses – 22 July 2015

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SECTION 1 - SUMMARY

The Employment Forum is seeking your views about what rates the minimum wage, the trainee rates and the maximum offsets for accommodation and food should be set at from 1 April 2016. The Forum welcomes comments, particularly from employers and employees who are affected by the minimum wage.

Any responses that are submitted, combined with statistical information and data about the economy, will help the Forum to decide whether any changes should be recommended to the minimum wage, the trainee rates and the offsets.

The Forum will present its recommendations to the Minister for Social Security in September 2015 and the Minister will then decide whether to propose any changes to the minimum wage legislation for any new rates that would apply from 1 April 2016.

Survey

You can complete the survey online and find more information on the website www.gov.je/minimumwagereview.

Please submit your comments no later than 22 July 2015:

- Via the online survey at www.gov.je/minimumwagereview.
- By email to E.Forum@gov.je
- By post to P.O. Box 55, La Motte St, St Helier, JE4 8PE.
- By requesting a meeting with the Forum; email E.Forum@gov.je

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SECTION 2 - Background

When the Employment (Jersey) Law 2003 (the 'Employment Law') came into force in July 2005, it gave employees in Jersey the right to receive a minimum wage and it also set up the Employment Forum (the 'Forum') as an independent body to consult on the level of the minimum wage and make recommendations to the Minister for Social Security (the 'Minister').

The Employment Law requires that, in making its recommendations to the Minister, the Forum must consult and it must consider the effect of the minimum wage on the economy and on competitiveness. The States of Jersey decided in 2010¹ that the Forum must also have regard to the States objective that the minimum wage should be set at 45 percent of average earnings within a period of not less than 5 years and not more 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.

If the minimum wage was equivalent to 45 percent of the mean weekly earnings (£670 for June 2014) it would be £7.54 per hour². The current minimum wage is 76 pence less than that target (compared to 80 pence short of the target last year). To achieve the States objective between 2016 and 2026 will require a certain amount of growth relative to average earnings increases which may be achieved gradually over a period of time, for example, by increasing the minimum wage by 1 percent more than the average earnings increase each year for the next 10 years.

The Employment Law provides that the Minister may refer matters to the Employment Forum that relate to the minimum wage and requires the Forum to take into account any particular factors specified by the Minister in considering what recommendations it should make. On 27 March 2015, the Minister asked the Forum to consider and report on any circumstances in which it might be able to recommend bigger minimum wage increases in the future. The Minister advised the Forum that she supports the States' aspiration to increase the minimum wage to a level that is equivalent to 45% of average earnings by 2026, subject, to consideration of jobs, competitiveness and the economy. The Minister also noted that the UK government agreed to the biggest real-terms rise in seven years for October 2015; a 3 percent increase in the adult workers minimum wage to £6.70 per hour. As in last year's minimum wage review, the Forum will consult and consider all of the responses along with all of the other relevant factors and evidence.

All of the Forum's previous minimum wage recommendations can be found on the States website³. The latest minimum wage rates are shown in Table 1.

¹ P.26/2010, as amended

² Calculation based on a 40 hour week

³ www.gov.je/minimumwage

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Table 1 – Jersey minimum wage rates

	2014	2015
Minimum Wage (per hour)	£6.63	£6.78
Trainee Rate Year 1 (per hour)	£4.97	£5.09
Trainee Rate Year 2 (per hour)	£5.80	£5.93
Maximum weekly offset against minimum wage for accommodation	£72.54	£74.21
Maximum weekly offset against minimum wage for accommodation & food	£96.72	£98.94
Maximum weekly offset against trainee rates for accommodation	£54.41	£55.66
Maximum weekly offset against trainee rates for accommodation & food	£72.54	£74.21

SECTION 3 – Minimum wages in other jurisdictions

Jersey's minimum wage has been increased on 1 April each year since 2005. The minimum wages in the UK, Isle of Man and Guernsey, however, are all increased from 1 October each year. The current minimum wages as of 1 April 2015 are;

- UK - £6.50
- Jersey - £6.78
- Isle of Man - £6.65
- Guernsey - £6.65

UK

The minimum wage rates in the UK will increase from 1 October 2015, as shown in Table 2. The government accepted the Low Pay Commission's recommendations for 2015 which included a 3.1 percent increase in the minimum wage. This is the largest real-terms increase in the National Minimum Wage since 2007.

The government rejected the recommended apprentice rate and proposed instead a 57 pence increase, which is the largest ever minimum wage increase for apprentices. The government's intention is that apprenticeships will deliver a wage that is comparable to other choices for work.

Table 2 – UK minimum wage rate

Rate	Age range	Current hourly rate	Hourly rate from 1/10/15	% increase
Adult	21+	£6.50	£6.70	3.1
Development	18-20	£5.13	£5.30	3.3
Young person	16-17	£3.79	£3.87	2.1
Apprentices	Under 19 or first year apprentice	£2.73	£3.30	20.9

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Isle of Man

The minimum wage rates in the Isle of Man will change from 1 October 2015, as shown in Table 3. The figures were approved following recommendations by the Minimum Wage Committee in 2014.

The Isle of Man has introduced a new higher level minimum wage of £6.65 per hour but only for those aged 21 or over. The other minimum wage rates will not increase in October 2015.

Table 3 – Isle of Man minimum wage rates

Rate	Age range	Current hourly rate	Hourly rate from 1/10/15	% increase
Minimum wage	21+	£6.40	£6.65	3.9
Minimum wage	18-20	£6.40	£6.40	0
Trainee (6 months)	18+	£5.24	£5.24	0
Young person	17	£5.24	£5.24	0
Young person	16	£4.67	£4.67	0

Guernsey

The minimum wage rates that have applied in Guernsey since 1 October 2014 are shown in Table 4.

Guernsey's Commerce and Employment Department recently consulted on the minimum wage rates for 1 October 2015 and they are expected to make an announcement shortly.

Table 4 – Guernsey minimum wage rates

Rate	Age range	Current hourly rate	Hourly rate from 1/10/15	% increase
Minimum wage	18+	£6.65	Not yet announced	
Young person	16-17	£5.55	Not yet announced	

SECTION 4 – Summary of 2015 minimum wage recommendation

The Forum consulted during the period 16 June to 18 August 2014 and received 116 written responses from a range of respondent types including employees, employers, trade unions, employers' associations and jobseekers. The States of Jersey Economic Adviser and Senior Assistant Statistician provided evidence in person to the Forum.

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Minimum wage

In making its recommendation for a 2.3 percent increase to £6.78 per hour from 1 April 2015, the Forum took into account the consultation responses as well as the following evidence collected in 2014:

- Global recovery continued, but at an uneven pace.
- The UK economy had returned to its pre-crisis peak and the euro area had emerged from recession. However, significant growth was not forecast for the Jersey economy in either 2013 or 2014.
- Growth was expected to return in 2015 and there was optimism around Jersey's economy, but the labour market remained relatively weak.
- Significant spare capacity remained in the labour market. Social Security data showed no increase in the number of contributors.
- The all-sector business activity indicator had recorded its highest positive level since the business tendency survey was introduced in 2009. Profitability remained negative however and employment was essentially neutral.
- Total employment remained high by historical standards but had been relatively stable for the previous 5 years.
- Unemployment had dropped by around 20 percent in the previous year and continued to be low relative to the majority of the world's advanced economies.
- The number of people registered as actively seeking work approximately doubled over the four year period from mid-2009 to mid-2013 but over the previous twelve months, the number had fallen by almost 20 percent back to levels last seen in 2011.
- There appeared to have been a continuing shift from full-time to part-time working since June 2008. One in six workers would have preferred to work longer hours at their current rate of pay.
- Average earnings had grown by 2.6 percent overall in the year to June 2014.
- Average earnings in the private sector had risen by 2.2 percent overall in the year to June 2014. The majority of sectors had seen average earnings increase by between 1 and 3 percent.
- The latest average earnings increase was greater than the preceding five-year average of 2.1 percent per annum; however it was below the long-term average of 4.5 percent per annum since 1990.
- Increases in the minimum wage contribute, at least partially, to annual increases in the average earnings index.
- Minimum wage increases often have differential impact on wages throughout the business.
- The RPI increase was low at 1.6 percent. Inflation was expected to increase but was not expected to exceed 2.5 percent for the remainder of 2014.

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- The price of consumer goods and services in Jersey⁴ was 9 percent greater than the UK average. Across the regions of the UK, consumer price levels vary in relation to the UK average, however the same minimum wage applies across all regions.
- Increases in the minimum wage may contribute to annual increases in the cost of living by driving up the prices of goods and services.
- Jersey's minimum wage rate continued to be higher than the minimum wages in the UK, Guernsey and the Isle of Man.
- Adult minimum wages were due to increase in October 2014 by 3 percent in the UK, 3.9 percent in the Isle of Man⁵ and 2.3 percent in Guernsey.
- Minimum wage jobs are primarily in sectors that rely on competition with other jurisdictions; agriculture and fishing (around 700 jobs in that sector are minimum wage jobs) and hotels, restaurants and bars (around 1,200 jobs in that sector are minimum wage jobs).
- Tourism in Jersey continued to decline. The level of the minimum wage will be critical in any strategy for growth in this sector.
- The Agriculture industry reported increased mechanisation in farming and growing to save on staff costs.
- Nearly half of the countries reviewed by the LPC did not increase their minimum wage rates between 2012 and 2013. In countries that had increased their minimum wages, the increases were more modest than in previous years.
- In the 2012 minimum wage review, 56 percent of employers and four employers' associations said that the minimum wage should be frozen. In the 2013 review, 21 percent of employer respondents and 1 employers' association said that the minimum wage should be frozen. In 2014, however, only 12 percent of employers and one employers' association supported a freeze.
- Of the employer respondents that specified a minimum wage rate, the average of the minimum wage rates specified for April 2015 was £6.87. Of these employers, 22 percent supported a freeze and 78 percent supported an increase.

The Forum had concluded that, whilst there were some indications of economic improvement, conditions remained uncertain and the labour market was still relatively weak. The Forum recognised that it must be cautious of putting any additional pressure on the economy. The Forum members agreed unanimously to recommend an increase of 2.3 percent - 15 pence per hour - to £6.78 per hour from 1 April 2015. This is equivalent to 40.5 percent of the June 2014 level of mean weekly earnings.

⁴ Excluding housing costs, health and education

⁵ The minimum wage rate for those over age 21 will increase by 3.9% but all other rates will be frozen.

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Trainee rates

No evidence or comments were presented during the review to demonstrate any requirement to review the trainee rates at that time. The Forum recommended that the 'Year 1' trainee rate should continue to represent 75 percent of the minimum wage (£5.09 from 1 April 2015) and the 'Year 2' trainee rate should continue to be set at 87.5 percent of the minimum wage (£5.93 from 1 April 2015).

Offsets

The Forum recommended that the maximum amounts that may be offset against the minimum wage each week where employees are provided with meals and accommodation, or accommodation alone, should continue to be increased proportionately to the minimum wage (a 2.3 percent increase) and that the maximum amounts that may be offset against the trainee rate should continue to represent 75 percent of the full offsets.

Greater minimum wage increases in the future

The Minister had asked the Forum to report on whether, and in what circumstances, greater minimum wage increases could be recommended in the future. It was clear from the employer respondents that an increased level of activity in their own business would be the most important factor that would enable them to tolerate more significant minimum wage increases. The Forum concluded that, when the signs of increased positivity in Jersey start to translate into evidence of growth and improvement for local businesses that are demonstrated in the statistics and the economic advice, the Forum will be able to consider more significant increases in the minimum wage.

2015 Review

The Forum agreed to consider returning to a bi-annual recommendation format in future years, but decided that the economic outlook for 2015 and 2016 was not yet sufficiently clear to enable a recommendation to be made beyond April 2015.

Minister's response

The Minister approved the Forum's recommendations and the minimum wage rates were increased accordingly from 1 April 2015.

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SECTION 5 – How to submit comments

The Forum welcomes your comments on the minimum wage.

You can complete the survey online and find further information about the review at www.gov.je/minimumwagereview.

Copies of the papers can be obtained from the Forum Secretary; E.Forum@gov.je, or T.447203.

In addition to completing the survey, you may request a meeting with the Forum to discuss your views. To arrange a meeting, please contact the Forum Secretary by **Friday 19 June 2015**

Please submit your comments, no later than Friday 22 July 2015:

- Via the online survey at www.gov.je/minimumwagereview.
 - By email to E.Forum@gov.je
 - By post to P.O. Box 55, La Motte St, St Helier, JE4 8PE
 - By requesting a meeting with the Forum (E.Forum@gov.je, or T. 447203)
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