

BACKGROUND PAPER

MINIMUM WAGE

2016 REVIEW



Issued by the Employment Forum on 1 June 2016

Deadline for responses – 27 July 2016

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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 2017. The Forum welcomes comments, particularly from employers and employees who are affected by the minimum wage. In addition this year, the Forum is seeking views on the implications of increasing the minimum wage more significantly and more quickly going forward.

Any responses that are submitted, either in writing or in any meetings with stakeholders, 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 2016 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 2017.

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

Please submit your comments no later than 27 July 2016:

- 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. The Employment Law also established the Employment Forum (the 'Forum') as an independent body that must 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 Forum is seeking comments, as it does each year, on the minimum wage, the trainee rates and the maximum sums that may be offset against each rate for accommodation and food. The Minister asked that the Forum present its recommendation by the end of September 2016, for any new rates to come into force on 1 April 2017.

The States of Jersey decided in 2010¹ that the Forum must also have regard to the States' aspiration that the minimum wage should be set at 45 percent of average earnings no earlier than 2016 and no later than 2026, subject to consideration of the economic conditions, the impact on competitiveness and the employment of low paid employees in Jersey.

If the minimum wage today was equivalent to 45 percent of the mean weekly earnings (£680 for June 2015) it would be £7.65 per hour². The current minimum wage is 68 pence less than that aspiration. To meet the States aspiration between 2017 and 2026 will require a certain amount of growth relative to average earnings increases which could be achieved gradually over a period of time or in more significant jumps.

The aspiration to reach 45 percent of mean weekly earnings is a moving target as the exact figure will change based on the latest average earnings data published by the Statistics Unit each year. For example, if the mean weekly earnings figure were to increase by £10 each year to reach £780 in June 2026, an hourly minimum wage rate equivalent to 45 percent of that figure would be £8.78.

As an additional part of its annual review, the Forum has been asked to consult on the implications of increasing the minimum wage more significantly going forward and more quickly than was originally agreed by the States (by 2020 instead of 2026).

The Minister had directed the Forum to consult on the implications of introducing a higher rate of minimum wage either for all employees over 16, or for employees over age 25. This direction was subject to a decision of the States Assembly on a draft amendment to the Employment Law that would have permitted a higher minimum

¹ P.26/2010, as amended

² Calculation based on a 40 hour week

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wage to be set for older employees³. The States Assembly rejected that amendment on 25 May 2016 and so the Minister directed the Forum to consult only on the implications of a higher rate for all employees over age 16.

All of the Forum’s previous minimum wage recommendations can be found on the States website⁴. The latest minimum wage rates are shown in Table 1.

Table 1 – Jersey minimum wage rates and offsets

	2015	2016
Minimum Wage (per hour)	£6.78	£6.97
Trainee Rate Year 1 (per hour)	£5.09	£5.23
Trainee Rate Year 2 (per hour)	£5.93	£6.10
Maximum weekly offset against minimum wage for accommodation	£74.21	£76.29
Maximum weekly offset against minimum wage for accommodation & food	£98.94	£101.71
Maximum weekly offset against trainee rates for accommodation	£55.66	£57.22
Maximum weekly offset against trainee rates for accommodation & food	£74.21	£76.28

SECTION 3 – Minimum wages in other jurisdictions

UK

The UK Government introduced a new ‘national living wage’ at a rate of £7.20 per hour on 1 April 2016. This is essentially a higher minimum wage rate for those over age 25 and is distinct from a living wage⁵. The government asked the Low Pay Commission (LPC) to report to it twice in 2016;

- Report by February 2016 on the four existing minimum wage rates for October 2016 (the apprentice rate, the 16-17 year old rate, the 18-20 year old rate and the ‘adult’ rate which now applies to ages 21-24). The LPC has presented its report and Table 2 sets out the rates that will come into force in October 2016. Those rates will only apply for six months as all five minimum wage rates are being aligned to run on the same calendar year from April 2017.
- Report by October 2016 on the future level of the National Living Wage for April 2017, taking into account the pace of the increase, the state of the economy, employment levels, unemployment levels and relevant policy changes. The LPC is currently consulting and will recommend rates for all five minimum wage rates to apply from 1 April 2017 and 2018.

³ P.38/2016

⁴ www.gov.je/minimumwage

⁵ The ‘living wage’ is a voluntary rate of pay calculated by reference to the cost of living and set annually by the Living Wage Foundation.

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The £7.20 rate for over 25s is expected to reach a target of 60 percent of median earnings by 2020, subject to sustained economic growth. According to the LPC, this rate “has been established with a somewhat greater tolerance of negative employment consequences”⁶ than the other minimum wage rates. The LPC will continue to recommend the other four rates on its previous basis: protecting as many low-paid workers as possible without damaging jobs or the economy.

The LPC has commented on the impact of the higher rate for older workers as follows;

*“This is a substantial increase that will help many low paid people. We are not of course at this stage able to comment on estimates of possible job losses by 2020 included in July 2015 analysis by the Office for Budget Responsibility (OBR). As one would expect, most firms in low-paying sectors have told us that they expect to be able to cope with the initial rate through a mixture of reduced premium payments, higher prices, lower profits and by offering fewer hours. The main areas of concern are smaller businesses in more marginal sectors and places, and the longstanding issue of the social care sector ...Both gains to employees and risks to employment will depend on the performance of the economy and how well business responds to the challenge. The main message from our consultation with employers and workers is that most organisations are still working out how they will accommodate the NLW, and have not yet looked beyond this year. Significant change in many business models is likely to be needed”.*⁷

Table 2 – Minimum wage rates in the UK

Rate	Age range	Current hourly rate	Hourly rate from 01/10/16	% increase
National Living Wage	25+	£7.20	£7.20	NA
Adult	21-24	£6.70	£6.95	3.7
Youth development	18-20	£5.30	£5.55	4.7
Young person	16-17	£3.87	£4.00	3.4
Apprentice	Aged 16 to 18, or 19+ in their first year	£3.30	£3.40	3.0

⁶ www.gov.uk/government/uploads/system/uploads/attachment_data/file/516690/LPC_consultation_letter_2016.pdf

⁷ www.gov.uk/government/uploads/system/uploads/attachment_data/file/506959/Chair_s_letter_-_final.pdf

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Isle of Man

In October 2014, the Isle of Man introduced a new higher minimum wage rate of £6.65 per hour for workers aged 21 and over. The minimum wage rates for all other age groups were frozen; the hourly rate for workers aged 18 to 20 remained at the 2013 adult rate of £6.40 per hour and all other rates remained at the 2011 rates.

Following consultation in 2015, the Isle of Man’s Minimum Wage Committee recommended new rates to come into force on 1 January 2016 (rather than October 2015), as shown in Table 3.

Table 3 – Minimum wage rates in the Isle of Man

Rate	Age range	Hourly rate from 1/10/14	Hourly rate from 1/01/16	% increase
Minimum wage	21+	£6.65	£7.00	5.3
Minimum wage	18+	£6.40	£6.65	3.9
Trainee (6 mths)	18+	£5.24	£6.65	26.9
Young person	Over compulsory school age and under 18	Age 16 - £4.67 Age 17 - £5.24	£5.40	15.6 (age 16) 3.1 (age 17)

Guernsey

Following consultation in 2015, the States of Guernsey approved new minimum wage rates to apply from 1 October 2015, as shown in Table 4.

The States of Guernsey decided that the young persons’ rate must be equalised with the adult rate and so greater increases have been applied to the young person’s rate each year in order to reduce the difference between the two rates. The maximum offsets against the minimum wage will remain at the 2014 rates; £64 per week for accommodation and £92 per week for accommodation and food.

Table 4 – Minimum wage rates in Guernsey

Rate	Age range	Hourly rate from 1/10/14	Hourly rate from 1/10/15	% increase
Minimum wage	18+	£6.65	£6.85	3.0
Young person	16-17	£5.55	£6.10	9.9

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SECTION 4 – Summary of previous minimum wage recommendation

The Forum consulted during the period 27 May to 22 July 2015 and received 91 written responses from a range of respondent types including employees, employers, trade unions, employers' associations and jobseekers. The Economic Adviser for the States of Jersey and a Statistician representing the Statistics Unit presented evidence in person to the Forum in September 2015.

Minimum wage

In making its recommendation for a 2.8 percent increase to £6.97 per hour from 1 April 2016, the Forum took into account the consultation responses as well as the following evidence collected in 2015:

- Global growth in 2015 was expected to be at a similar pace to the previous two years. However, there were a number of uncertainties, risk and threats to the global economy (e.g. China) that demonstrated how fragile the global economy remained.
- Jersey's economy stabilised in 2013 and showed signs of significant growth in 2014 of between 4.5 and 6.5 percent. This was a stronger position than had previously been estimated, partly due to the finance sector reporting stronger than expected growth in profits.
- Growth of between 0.5 and 3.5 percent was forecast in 2015 due to expected growth in employment and low inflation.
- The Business Tendency Survey (BTS) all-sector business activity indicator had moved to a positive position in both the finance and non-finance sectors in the first two quarters of 2015. This suggested that businesses were working slightly above capacity for the first time since the survey began in September 2009.
- Having been relatively flat for 5 years, total employment grew strongly in the 12 months to December 2014, at an annual rate of more than 3 percent.
- The biggest increase in employment in the year to December 2014 was in the finance sector, but staff increases were also reported in most of the private sectors.
- The BTS employment indicator declined for the finance and non-finance sectors, however the longer-term outlook for future employment in the finance sector was positive - 49 percent anticipated increased employment in December 2014.
- The number of people actively seeking work continued to fall; there were 110 fewer people in August 2015 than a year earlier and numbers had fallen by 31.7 percent since they peaked in March 2013.
- The internationally comparable level of unemployment of 4.6 per cent was lower than the rate in the majority of the world's advanced economies and was 1.1 percentage points lower than in the previous year.
- Average earnings grew by 1.8 percent overall in the year to June 2015.

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- Average earnings did not increase in the public sector but grew by 2.2 percent in the private sector in the year to June 2015. The majority of the private sectors saw average earnings increase by between 1 and 3 percent.
- The latest increase in earnings was lower than the preceding five-year average of 2.0 percent per annum and was below the long-term annual average of 4.5 percent per annum since 1990.
- Low average earnings growth indicated that the labour market had responded to the economic situation. If earnings growth had been higher, unemployment may also have been higher.
- Average earnings exceeded inflation in 2013 and 2014 after falling behind inflation for four of the previous five years.
- In real terms, average earnings increased by less than 1 percent since 2001.
- The RPI increase was low at 0.9 percent. Inflation was expected to increase but was not expected to reach 3 percent until 2017.
- Increases in the minimum wage may contribute to annual increases in the cost of living by driving up the prices of goods and services, unless employers offset this, for example, by increasing productivity and/or reducing profits.
- Increases in the minimum wage also contribute to average earnings increases and often have a differential impact on wages throughout the business, particularly for the lower paying sectors.
- Adult minimum wages were due to increase in October 2015 by 3.1 percent in the UK and 3.0 percent in Guernsey.
- Jersey's minimum wage rate would continue to be higher than the minimum wages in the UK and Guernsey, even when those jurisdictions applied their increases on 1 October 2015. However, the UK government had announced a new 'national living wage' rate of £7.20 for employees over age 25 on 1 April 2016.
- Around 65 percent of low paid jobs are primarily in sectors that rely on competition with other jurisdictions; agriculture and fishing and hotels, restaurants and bars.
- The Jersey Hospitality Association had stated that the hospitality sector is emerging from years of decline to a position where growth is possible. The level of the minimum wage was considered to be critical in any strategy for growth in this sector.
- The Jersey Farmers Union continued to have concerns about the future viability of the agriculture and horticulture sector given the saturation of the market with goods from competitor jurisdictions that are not on a level playing field with Jersey.
- Of the countries reviewed by the LPC in its 2015 report, those with a minimum wage that is higher than the UK (£6.50) tended to increase their minimum wage, whereas those with a lower minimum wage than the UK tended to freeze theirs.
- Calls for a minimum wage freeze declined each year since their peak in 2012 and more than half (55%) of the employers and 71 percent of respondents in 2015 said that the minimum wage should be higher or much higher.

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The Forum had concluded that, while 2015 showed positive indications that the local economy was growing and there were firm improvements in a number of key economic variables (growth, employment and earnings), it would not be appropriate to react hastily to rectify years of slow earnings growth. If an increase in the minimum wage is not backed by an increase in productivity, employers may look to restore this in higher prices, reduced hours of work and/or reductions in jobs.

The Forum members agreed unanimously to recommend an increase of 2.8 percent - 19 pence per hour - to £6.97 per hour from 1 April 2016. This rate is equivalent to 41 percent of the June 2015 level of mean weekly earnings. The Forum recognised that the UK had recently announced its new rate of £7.20 per hour for workers over age 25. However, Jersey's minimum wage applies to all employees over age 16 and the Forum noted that a primary law amendment would be required to the Employment Law to permit age-related minimum wage rates.

Trainee rates

Few comments were submitted about the trainee rates and the Forum considered that it was not necessary to review the rules surrounding the trainee rates or their proportion relative to the minimum wage at that time. The Forum recommended that the 'Year 1' trainee rate should continue to represent 75 percent of the minimum wage (£5.23 per hour from 1 April 2016) and the 'Year 2' trainee rate should continue to be set at 87.5 percent of the minimum wage (£6.10 per hour from 1 April 2016).

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 2.8 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.

Data collected by the Statistics Unit in 2013 allows us to estimate that employees were provided with accommodation, or accommodation with meals, as part of their employment package in 50 percent of jobs that pay the minimum wage or the trainee rate and in 80 percent of those jobs, the employer made a deduction or a charge against pay. The offsets are used primarily in two sectors, agriculture and fishing and hotels, restaurants and bars.

Greater minimum wage increases in the future

The Forum had previously stated that, when 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 would consider more significant increases in the minimum wage. As this position had

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partially been reached last year, the recommended increase exceeded the increases in prices and earnings. With improvements in key economic measures, the Forum anticipated being more confident in increasing the minimum wage for April 2017. However, factors such as the risks and uncertainties for the global economy and the uncertainty about growth in 2015 would continue to be important factors.

The Forum recommended that if the Minister intends to direct the Forum to consult on a higher minimum wage similar to the UK's new minimum wage rate for over 25's, it will be important to consider first whether there is a political inclination to amend the Employment Law to permit different minimum wages to be prescribed for employees of different ages.

2016 Review

The Forum agreed that the economic outlook for 2016 and 2017 was not yet sufficiently clear to enable a recommendation to be made beyond April 2016.

Minister's response

The Minister approved the Forum's recommendations and the minimum wage rates were increased accordingly from 1 April 2016.

SECTION 5 – How to submit comments

The Forum welcomes your comments as part of this minimum wage review.

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 during the consultation period, please contact the Forum Secretary by 4 July 2016.

Please submit your comments, no later than 27 July 2016:

- 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)