

BACKGROUND PAPER

MINIMUM WAGE

2017 REVIEW



Issued by the Employment Forum on 5 June 2017

Deadline for responses – 28 July 2017

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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 2018. The Forum welcomes comments, particularly from employers and employees who are affected by the minimum wage.

Responses that are submitted in writing and in stakeholder meetings will be combined with statistical information and data about the economy which 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 2017 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 2018.

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

The survey should take you around 5-10 minutes to complete.

Please submit your response no later than Friday 28 July 2017:

- Via the online survey at www.gov.je/consult.
 - 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

Employees in Jersey have had the right to receive the statutory minimum wage since July 2005 when the Employment (Jersey) Law 2003 (the 'Employment Law') came into force. 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 amounts that may be offset against each rate for accommodation and food. The Minister has directed the Forum to present its recommendation by the end of September 2017, for any new rates to come into force on 1 April 2018.

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 an hourly rate that is equivalent to 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 (£700 for June 2016) it would be £7.88 per hour². The current minimum wage is 70 pence less than that aspiration. To meet the States aspiration between 2018 and 2026 would 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 £800 in June 2026, an hourly minimum wage rate equivalent to 45 percent of that figure would be £9.00.

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 and offsets

	2016	2017
Minimum Wage (per hour)	£6.97	£7.18
Trainee Rate Year 1 (per hour)	£5.23	£5.39
Trainee Rate Year 2 (per hour)	£6.10	£6.28
Maximum weekly offset against minimum wage for accommodation	£76.29	£78.58
Maximum weekly offset against minimum wage for accommodation & food	£101.71	£104.76
Maximum weekly offset against trainee rates for accommodation	£57.22	£58.94
Maximum weekly offset against trainee rates for accommodation & food	£76.28	£78.57

SECTION 3 – Minimum wages in other jurisdictions

United Kingdom

The UK Government introduced a new ‘National Living Wage’ at a rate of £7.20 per hour on 1 April 2016 which was increased to £7.50 from 1 April 2017. This higher minimum wage rate must be paid to workers over age 25 and it is distinct from a living wage⁴.

The Low Pay Commission’s (LPC) remit for recommending increases to the National Living Wage is different from its remit for recommending increases to the other four minimum wage rates. The living wage is increased based on the objective to reach 60 per cent of median earnings by 2020, subject to sustained economic growth, with an inherent acceptance that there will be some negative impact on jobs. However, the remit for the LPC in recommending increases to the other four minimum wage rates continues to include the need to protect as many low-paid workers as possible without damaging jobs or the economy.

Table 1 – Minimum wage rates in the UK

Rate	Age range	Hourly rate from 01/10/16 ⁵	Current hourly rate (01/04/17)	% increase
“National Living Wage”	25+	£7.20	£7.50	4.2
Adult minimum wage	21-24	£6.95	£7.05	1.4
Youth development	18-20	£5.55	£5.60	0.9
Young person	16-17	£4.00	£4.05	1.2
Apprentice	Aged 16-18 or 19+ in their first year	£3.40	£3.50	2.9

⁴ 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.

⁵ The £7.20 rate for over 25s came into force on 1 April 2016. The other 4 minimum wage rates increased on 1 October 2016 but only applied for 6 months. All 5 minimum wage rates now increase with effect from 1 April.

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Isle of Man

From 1 June 2017, the Isle of Man will follow the UK and introduce a new higher minimum wage rate of £7.50 that applies only to workers over age 25. The other 4 minimum wage rates will also increase from 1 June 2017.

Table 2 – Minimum wage rates in the Isle of Man

Rate	Age range	Hourly rate from 01/01/16	Hourly rate from 01/06/17	% increase
Minimum wage	25+	NA	£7.50	NA
Minimum wage	21-24	£7.00	£7.20	2.9
Minimum wage	18-20	£6.65	£6.85	3.0
Trainee (6 mths)	21+	£6.65	£6.85	3.0
Young person	Over compulsory school age, under 18	£5.40	£5.70	5.6

Guernsey

Following consultation in February 2016, the States of Guernsey approved a minimum wage of £7.20 for workers over age 18, to apply from 1 January 2017.

Table 3 – Minimum wage rates in Guernsey

Rate	Age range	Hourly rate from 01/10/15	Hourly rate from 01/01/17	% increase
Minimum wage	18+	£6.85	£7.20	5.1
Young person	16-17	£6.10	£6.50	6.6

SECTION 4 – Summary of previous minimum wage recommendation

The Forum consulted during the period 1 June to 27 July 2016 and received 168 written responses from a range of respondent types including employees, employers, trade unions, employers' associations and jobseekers. Some of the responses represented the views of a group or organisation rather than an individual respondent (e.g. Jersey Hospitality Association, Jersey Farmers Union, Unite the Union). The latest economic outlook and statistics were presented to the Forum on 6 September 2016 by the Economic Adviser for the States of Jersey and the Chief Statistician for the Statistics Unit.

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Minimum wage

In making its recommendation for a 3 percent increase to £7.18 per hour from 1 April 2017, the Forum took into account the consultation responses as well as the following evidence collected in 2016:

- The global economy had grown slowly relative to expectations, primarily due to a further slowdown in emerging economies.
- Forecasts for the UK economy were significantly downgraded following Brexit.
- There had been some improvement in economic indicators for Jersey in 2015 with employment at a record high and positive sentiments from business. However, the economic implications of Brexit for Jersey had introduced considerable uncertainty.
- Growth forecasts were downgraded for Jersey – to just below 0.5 percent in 2016 and largely flat in 2017 and 2018.
- The BTS all-sector business activity indicator for March 2016 (pre-Brexit) found a greater proportion of businesses in Jersey reporting an increase in business activity compared with three months previously than the proportion reporting a decrease.
- Total employment grew at a rate of 1 to 2 percent each year in 2014 and 2015 and had reached the highest figure recorded to date.
- The BTS employment indicators for Employment and Future Employment showed improved optimism but it was unclear whether this optimism would continue with the impact of Brexit. The FPP had forecast employment growth downwards, to 0.5 percent in 2016 and 0 percent in both 2017 and 2019.
- Despite benefit changes that required more people to register as actively seeking work in Jersey, the number of unemployed people continued to fall. There were 60 fewer people actively seeking work in August 2016 than a year earlier and numbers had fallen by 34.6 percent since they peaked in March 2013.
- Average earnings grew by 2.1 percent overall in the year to June 2016 but increases were still below the long-term average of 4.3 percent since 1990.
- In real terms, average earnings had increased by 0.6 percent in the previous 12 months.
- In the 12 month period, average earnings had increased by 1.3 percent in the public sector (a real terms fall for the second year) and had increased by 2.3 percent in the private sector (a real terms increase of 0.8 percent).
- Earnings in both construction and hotels, bars and restaurants grew quickly (>3%) after years of slower than average growth for both sectors.
- The level of mean weekly earnings was £700 - £20 higher than in June 2015.
- The RPI increased by 1.5 percent in the 12 months to June 2016.
- Forecasts for 2017 indicated that inflation would increase by 3.3 percent and average earnings would rise by 3.8 percentage points.

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- 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 take other actions to address this, such as reducing profits or increasing productivity.
- Increases in the minimum wage also contribute to average earnings increases and often affect wage rates throughout the business.
- The highest minimum wage rates in other jurisdictions at that time were;
 - UK - £7.20 from 1 January 2016 for over 25s
 - Isle of Man - £7.00 per hour for over 21s.
 - Guernsey – £6.85.
- Jersey's minimum wage applies to employees over age 16. The UK, Isle of Man and Guernsey all have lower rates for younger employees. For example, in the UK, 16 and 17 years olds are entitled to a lower rate of £4.00 per hour.
- Of the countries considered by the LPC in its latest review, nearly half had not increased their minimum wage. The UK increase of 3 percent was the third highest percentage increase.
- Almost 9 in 10 (88%) of low paid jobs were in sectors that rely on competition with other jurisdictions; agriculture and fishing and hotels, restaurants and bars.
- The JHA urged the Forum to be cautious or risk jobs losses and business closure, rather than more job opportunities and growth in tourism in line with 'Visit Jersey'.
- The JFU continued to be concerned that large wage increases cannot be sustained by this sector, noting that other sectors have more control over the price they charge customers. The JFU was particularly concerned about the proposal to increase the minimum wage to 45 percent of mean earnings by 2026 on the basis that the figure is driven by high earners in the finance sector.
- More than half (56%) of the respondents overall said that the minimum wage should be higher or much higher and 38 percent said the minimum wage was about right. Only a small proportion said the minimum wage should be lower (7%).
- Very few employers (none in agriculture or hospitality) said that the minimum wage should be 'much higher'. However, 27 percent of employers in agriculture and 27 percent of employers in hospitality would support a higher minimum wage rate.

The Forum members agreed unanimously to recommend an increase of 3 percent - 21 pence per hour. This was the highest percentage increase that the Forum had recommended since 2008, before the economic downturn. The Forum was mindful that a 3 percent increase significantly exceeded the increases in prices and earnings. The Forum believed that businesses would be able to tolerate a 3 percent increase but considered that there was too much uncertainty at that time to take a more significant risk with wage costs. The £7.18 rate maintained the position of the minimum wage at 41 percent relative to the June 2016 level of mean weekly earnings.

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Trainee rates

The Forum recommended that the 'Year 1' trainee rate should continue to be set at a rate equivalent to 75 percent of the minimum wage - £5.39 per hour - and the 'Year 2' trainee rate should continue to be set at a rate equivalent to 87.5 percent of the minimum wage - £6.28 per hour.

Offsets

Employees were provided with accommodation, or accommodation with meals, as part of their employment package in one third of jobs (an estimated 1,000 jobs) that pay the minimum wage or the trainee rate. 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 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.

Increasing the minimum wage more significantly and more quickly

The Forum concluded that it could not demonstrate at that time that the minimum wage could be increased more significantly or more quickly to reach the States target of 45 percent of mean earnings by 2020 or 2026. The Forum recognised that it might have reached a different conclusion if it were not for the general uncertainty introduced by Brexit. However, the Forum committed to continue to ensure that the States aspiration is an essential factor in formulating the minimum wage recommendation, along with competitiveness, low paid jobs and the economy of Jersey.

Minister's response

The Minister approved the Forum's recommendations and the minimum wage rates were increased accordingly from 1 April 2017.

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SECTION 5 – How to submit comments

The Forum welcomes your comments. You can complete the survey online and find further information about the review at www.gov.je/consult.

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 Monday 3 July 2017.

The survey should take you around 5-10 minutes to complete.

Please submit your response, no later than Friday 28 July 2017:

- Via the online survey at www.gov.je/consult
- 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)

How we will use your information

The information you provide will be processed by the Employment Forum in compliance with the Data Protection (Jersey) Law 2005 for the purposes of this consultation. The consultation responses will be shared electronically and in hard copy with the members of the Forum for the purposes of making a recommendation in response to the consultation. A list of the Forum members can be found on the website www.gov.je/employmentforum

The Forum may quote or publish responses to this consultation (e.g. in a published recommendation, in the media, published on www.gov.je, etc.) but will not publish the names of individuals without their consent.
