

BACKGROUND PAPER

MINIMUM WAGE

2017 REVIEW



Issued by the Employment Forum on 11 June 2018

Deadline for responses – 27 July 2018

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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 2019. 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, as well as other relevant information and evidence, 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 2018 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 2019.

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 27 July 2018:

- 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.

In her letter directing the minimum wage review this year the former Minister, Deputy Susie Pinel, noted that the States Assembly had recently given a very clear statement of its aspiration for the future of the minimum wage. The Forum must take into account that aspiration, in addition to its statutory obligations.

45 percent of mean earnings by 2020

In 2010, the States Assembly decided that the minimum wage should reach a figure that is equivalent to 45 percent of mean weekly earnings by 2026, subject to low paid jobs, the economy and competitiveness¹. A further decision of the States Assembly on 6 March 2018 accelerated the timetable, as follows:

“the minimum wage should be set at 45% of average earnings by the end of 2020 subject to consideration of economic conditions and the impact on competitiveness and employment of the low paid in Jersey; and requested the Employment Forum to have regard to this objective when making its recommendation on the level of the minimum wage to the Minister for Social Security; and further requested the Council of Ministers to investigate and propose a programme to deliver productivity improvements in low paid sectors, with outline proposals to be delivered in April 2018, and a detailed plan by December 2018.”

This decision of the States Assembly is an aspirational target that is subject to a number of other factors. It is important to clarify that, contrary to reports in the media earlier in 2018 and views expressed by some States Members, 45 percent of mean earnings is not a fixed objective that the Forum is obliged to meet. It is one of the factors which the Forum is required to take into account in making its recommendations. It does not require the Forum to recommend an increase to the minimum wage equivalent to 45 percent of mean earnings by 2020 (or any other time period) regardless of responses to consultation and its statutory obligations.

If the minimum wage today was equivalent to 45 percent of the mean weekly earnings (£730 for June 2017) it would be £8.21 per hour. An increase of this size would require

¹ P.26/2010, as amended

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significant growth relative to average earnings increases. To achieve the target with only two minimum wage increases (in April 2019 and April 2020) would require more significant jumps relative to average earnings.

The calculation of 45 percent of mean weekly earnings is a moving target as the figure changes based on the latest average earnings data published by Statistics Jersey in August each year. For example, if the mean weekly earnings figure were to increase by £20 to reach £750 in June 2018, an hourly minimum wage rate equivalent to 45 percent of that figure would be £8.44 for April 2019 (a 12.5% increase). If the mean weekly earnings were to increase by a further £20 to reach £770 in June 2019, a minimum wage rate equivalent to 45 percent of that figure would be £8.66 for April 2020.

Productivity plan

The Forum understands that the Council of Ministers intends to provide a programme that will help lower paying businesses in agriculture and hospitality to adapt to a significantly higher minimum wage. The Council of Ministers committed to delivering an outline proposal by April 2018 to ensure that the plan would be available for consideration at the start of the Forum's minimum wage review this year, with the final plan to be delivered by the end of December 2018.

The Minister for Social Security made it clear during the States debate on 6 March that, if the Forum is to make meaningful progress towards recommending a significantly higher minimum wage for April 2019 it is essential that businesses are reassured that the proposed programme to deliver productivity improvements will enable them to pay higher wages. The Minister also made it clear that a failure to provide clear proposals for a productivity plan by April 2018 would make it very difficult for the Forum to make significant movement towards the States aspirational target by 2020.

The Forum was advised on 17 May 2018 that an outline productivity plan will not be available in time for the minimum wage review due to the election and purdah period and the formation of a new Council of Ministers in June. The Forum was advised that *"Work will continue on that plan to consider the various options in conjunction with industry representatives and a detailed plan will be delivered later this year, with this work fed into decision making on strategic and financial priorities."*

The Forum is disappointed that it is not yet clear when the plan will become available and brought this to the attention of the former Minister, requesting any further information about this work. The failure to provide an outline plan affects the content of the Forum's 2018 review of the minimum wage and it could potentially impact on the Forum's ability to make meaningful progress in relation to the States' aspiration, subject to the views and evidence gathered during consultation. The Forum considers that employers in the most affected sectors are likely to be very concerned about this lack of progress and its implications.

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In this review, the Forum is asking employers to consider the impact of significant increases to the minimum wage by 2020, in the absence of a productivity plan. In addition, the Forum is seeking comments on the trainee rates and the maximum amounts that may be offset for accommodation and food, including the extent to which the offsets are currently used. The Forum is also asking whether any changes might be appropriate, such as to the timing and frequency of increases to the minimum wage over the next 2 years in view of the accelerated States aspirational target.

The Minister has directed the Forum to present its recommendation by the end of September 2018, for any new rates to come into force on 1 April 2019. All of the Forum's previous minimum wage recommendations are on the States website². The latest minimum wage rates are in Table 1.

Table 1 – Jersey minimum wage rates and offsets

	2017	2018
Minimum Wage (per hour)	£7.18	£7.50
Trainee Rate Year 1 (per hour)	£5.39	£5.63
Trainee Rate Year 2 (per hour)	£6.28	£6.56
Maximum weekly offset against minimum wage for accommodation	£78.58	£82.12
Maximum weekly offset against minimum wage for accommodation & food	£104.76	£109.47
Maximum weekly offset against trainee rates for accommodation	£58.94	£61.59
Maximum weekly offset against trainee rates for accommodation & food	£78.57	£82.10

Minimum wage, living wage and UK 'national living wage'

It is important to highlight the distinction between the minimum wage, the living wage and the UK 'national living wage'. There has been a lot of discussion and some confusion in Jersey about these different rates of pay, particularly during the recent elections in Jersey and during the debate of the States' aspiration earlier this year. The Forum considers that it would be helpful to clarify the differences.

Minimum wage – In Jersey, this requirement is set out in the Employment Law and the current rate is £7.50 per hour. Generally, the setting of a statutory minimum wage rate takes into account factors including competitiveness, economic forecasts and the labour market. The minimum wage is intended to remove the worst cases of low pay whilst taking into account business realities and supporting a competitive economy. It also sets a minimum standard in the employment relationship and establishes a level playing field between employers, irrespective of their size and sector. The Forum is directed annually by the Minister to consult and make recommendations in respect of the Jersey minimum wage and has statutory obligations in this regard under the Employment Law.

² www.gov.je/minimumwage

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Living wage - A living wage is a different concept from a minimum wage because it is a voluntary benchmark, rather than a legally enforceable minimum level of pay. Unlike the minimum wage, the cost of living features heavily in decisions about the living wage. In Jersey, the voluntary living wage is set by local charity Caritas and the rate from 1 April 2018 is £10.20 per hour. It is outside of the Forum’s remit to consider a living wage for Jersey. The Living Wage Foundation sets a voluntary living wage for the UK by reference to the cost of living.

National living wage - Despite the misleading label, the ‘national living wage’ is in fact one of the UK’s minimum wage rates set by the Low Pay Commission. It is distinct from a living wage in that it is essentially a premium minimum wage rate - currently set at £7.83 - for workers over age 25. Section 3 provides more information about how the national living wage differs from the other rates of minimum wage in the UK.

SECTION 3 – Minimum wages in other jurisdictions

United Kingdom

The ‘National Living Wage’ increased from £7.50 to £7.83 from 1 April 2018. 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 (see Table 2). The national 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.

The level of the median earnings in 2020 is uncertain and so wage forecasts are used to calculate the likely rate. Since the announcement of the national living wage in July 2015, wage forecasts have fallen. The latest estimate is that a national living wage set at 60 percent of median earnings in 2020 would be around £8.56³.

Table 2 – Minimum wage rates in the UK

Rate	Age range	Hourly rate from 1/04/17	Hourly rate from 1/04/18	% increase
National Living Wage	25+	£7.50	£7.83	4.4
Adult minimum wage	21-24	£7.05	£7.38	4.7
Youth development	18-20	£5.60	£5.90	5.4
Young person	16-17	£4.05	£4.20	3.7
Apprentice	Aged 16-18 or 19+ in their first year	£3.50	£3.70	5.7

³ www.ft.com/content/f98d01cc-cf9c-11e7-9dbb-291a884dd8c6

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Isle of Man

Following consultation in late 2016, the Isle of Man’s independent Minimum Wage Committee recommended increases to the four minimum wage rates, including a minimum wage of £7.20 for workers over age 21, to come into force on 1 April 2017⁴.

The Isle of Man’s Economic Development Department accepted the four recommended rates but also proposed a fifth minimum wage rate of £7.50 for workers over age 25. The increases came into force from 1 June 2017 (instead of April 2017) to give employers more time to plan for the changes. The Isle of Man Minimum Wage Committee is consulting on whether the rates should be increased in 2018. The current minimum wage rates in the Isle of Man are shown in Table 3.

Table 3 – Minimum wage rates in the Isle of Man

Rate	Age range	Hourly rate from 1/01/16	Hourly rate from 1/06/17	% 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 months)	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 2017, the Committee for Employment and Social Security proposed a minimum wage of £7.75 to apply from 1 January 2018. The changes are shown in Table 4.

The President of the Committee for Employment & Social Security, Deputy Michelle Le Clerc, said of the new rates:

“The Committee has taken the view that an increase to £7.75 is appropriate at this current time and takes into account the needs of the employee and the employer. The Committee is also conscious that external factors such as Brexit and the weakening of the pound have had an impact on recruitment in certain industries. It is hoped that the new proposed minimum wage will help Guernsey remain a competitive and attractive destination in which to work.”⁵

The maximum offsets against the minimum wage were increased to £75 per week for accommodation (up £9 per week) and £105 per week for accommodation and food (up £10 per week).

⁴ www.gov.im/media/1355892/minimum-wage-committee-recommendation-2017.pdf

⁵ www.gov.gg/article/162101/New-minimum-wage-rates-proposed

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Table 4 – Minimum wage rates in Guernsey

Rate	Age range	Hourly rate from 1/01/17	Hourly rate from 01/01/18	% increase
Minimum wage	18+	£7.20	£7.75	7.6
Young person	16-17	£6.50	£7.05	8.5

SECTION 4 – Summary of previous minimum wage recommendation

The Forum consulted during the period 5 June to 28 July 2017 and received 135 written responses from a range of respondent types including employees, employers, trade unions and employers’ associations. Some of the written responses count as a single response but represent the views of a group or organisation rather than an individual respondent, including the Jersey Farmers’ Union, the Jersey Hospitality Association, Unite the Union and the Jersey Branch of the Chartered Institute of Personnel and Development. The consultation was circulated to those on the Forum’s consultation database which includes a wide cross-section of respondents. The survey was also available to complete online which included questions suitable for all types of respondents, including employers, employees, trade unions, employers’ associations and independent bodies.

Minimum wage

The Forum recommended a 4.5 percent increase to £7.50 per hour from 1 April 2018. This was the highest percentage increase that the Forum had recommended in nine years which significantly exceeded the increases in earnings and prices, giving a real terms wage increase of 2 percent. The Forum stated the following in its recommendation -

“The recommended increase is likely to be too high to appease minimum wage paying employers and too low to satisfy those who aspire to reach 45 percent of the mean weekly earnings. This year, the States aspiration to increase the minimum wage, the very high mean weekly earnings figure and the Minister’s direction to the Forum to recommend the highest minimum wage rate that it can for April 2018 has resulted in the Forum recommending a significant increase to the minimum wage.”

The Forum took into account the consultation responses as well as the following evidence collected in 2017:

- There were positive developments in the local economy in 2016 with employment reaching record highs, unemployment continuing to decrease and positive indications from businesses.
- There was still significant uncertainty about the impact of Brexit on Jersey, as well as uncertainty around the performance of certain sectors in Jersey.

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- The Fiscal Policy Panel (FPP) reported that local economic growth in 2016 had been worse than expected but forecast moderate growth in 2017 (1.2%) and 2018 (0.6%).
- The Business Tendency Survey (BTS) for June 2017 showed a more positive response than in the previous quarter for business activity and new business. Future expectations about business activity were also positive.
- Employment had grown to the highest levels recorded to date driven by private sector increases, including small increases in hotels, restaurants and bars (up by 60 employees) and agriculture and fishing (up by 20 employees).
- The BTS indicator for future employment showed that 25 percent of companies expected to increase employment in the future and 63 percent expected no change.
- The FPP forecast employment growth at 0.5 percent in 2018 and flat in 2019 and 2020.
- The number of people registered as actively seeking work in Jersey continued to fall, standing at 1,000; the lowest since 2009.
- Average earnings grew by 2.6 percent overall in the year to June 2017 – an increase in real terms for the fifth consecutive year.
- Short-term earnings growth looked positive - the FPP forecast increases of 2.5 percent in 2018 and 3 percent in 2019 and 2020.
- In the year to June 2017, wages increased in hotels, restaurants and bars (3.5%) and agriculture (3%), mainly driven by the 3 percent increase in the minimum wage in April 2017.
- The level of mean weekly earnings was £730, up from £700 in June 2016; a 4.3 percent increase compared to a 2.6 percent increase in the index itself.
- The Retail Prices Index (RPI) increased by 2.5 percent in the year to June 2017, compared to a 1.5 percent increase in the previous year.
- Forecasts indicated that inflation would increase by 2.4 percent in 2018 and by 3.3 percent in 2019 and 2020.
- The highest minimum wage rates in other jurisdictions at that time were;
 - UK - £7.50 from 1 April 2017 for over 25s.
 - Isle of Man - £7.50 from 1 June 2017 for over 25s.
 - Guernsey – £7.20 from 1 January 2017 for over 18s.
- 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 were entitled to a lower rate of £4.05 per hour.
- Positive and negative estimates can be drawn from Oxera's economic model that estimated the potential impact of a significantly higher minimum wage in Jersey - higher wages for employees and potentially higher consumer spending, but also potential job losses and reduced incomes for some, increased prices and lower economic activity overall.
- Almost 2 in 3 (62%) of low paid jobs were in two sectors that rely on competition with other jurisdictions; agriculture and fishing and hotels, restaurants and bars.

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- The Jersey Hospitality Association reported signs of positive growth in the sector but noted that businesses continued to feel the pressure of uncertainties around Brexit, the value of sterling and increasing overheads imposed by government – costs which the sector cannot continue to pass on to customers.
- The Jersey Farmers' Union referred to '*a level of pessimism throughout the Industry*' and reported that three farmers had left the industry in the previous year. While the minimum wage has increased by 40 percent in 12 years, prices paid to growers for their goods had barely increased over the same period.
- A large minimum wage employer in Jersey reported that each 1 percent increase in the minimum wage cost the business an extra £60,000.
- Of the respondents to the consultation overall, 72 percent said that the minimum wage should be higher or much higher and 25 percent of respondents said the minimum wage was about right.
- Of the employers that responded to the consultation that pay £7.20 or less to some of their staff, 14 percent said that the minimum wage should be higher or much higher and 87 percent said that the minimum wage was about right.

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 - £5.63 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 - £6.56 per hour.

Offsets

The Forum recommended that the maximum amounts that may be offset (i.e. deducted from wages) 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 4.5 percent increase). The Forum also recommended that the maximum amounts that may be offset against the trainee rate should continue to represent 75 percent of the full offsets.

The Forum noted that, if progress is to be made towards a significantly higher minimum wage, increasing the offsets disproportionately to the minimum wage (i.e. at a different percentage rate increase to that recommended in respect of the minimum wage) is one option that might be considered to alleviate the impact on minimum wage paying employers. The Forum stated in its recommendation that it intended to include some questions in the next review to find out more about employers' use of the offsets.

Minister's response

The Minister accepted the Forum's recommendations and the minimum wage rates were increased accordingly from 1 April 2018.

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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 2 July 2018**.

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

Please submit your response, no later than Friday 27 July 2018:

- 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 that you provide will be processed by the Employment Forum in compliance with the Data Protection (Jersey) Law 2018 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.
