

BACKGROUND PAPER

MINIMUM WAGE

2014 REVIEW



Issued by the Employment Forum on 16 June 2014

Deadline for responses – 8 August 2014

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SECTION 1 - SUMMARY

The Employment Forum is reviewing the minimum wage and wishes to receive comments, particularly from employers and employees who are affected by the minimum wage. The Forum is seeking 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 2015.

Your comments, combined with 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 Minister for Social Security will then consider whether to accept the recommendation before proposing any changes to the Law.

Survey

The survey is suitable for all types of respondents, including employers, employees, trade unions, employers' associations, independent bodies, minimum wage earners and other interested parties. You can complete the survey online and find more information at www.gov.je/minimumwagereview.

Contact the Forum Secretary if you require copies E.Forum@gov.je, T.447203.

Please submit your comments no later than 8 August 2014:

- 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.
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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 legislation 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 (£660 for June 2013) it would be £7.43 per hour². The current minimum wage is 80 pence less than that target. To achieve such a target between 2016 and 2026 will require a certain amount of growth relative to average earnings increases over a period of time, for example, 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. The Minister wrote to the Forum on 24 March 2014 directing the Forum to take into account three matters in this year's minimum wage review;

1. The Minister asked the Forum to take into account the States of Jersey Statistics Unit's report for 2013 on the 'Jersey-UK Relative Consumer Price Levels for Goods and Services'. The Forum will take this into account as part of its review of economic and statistical evidence.
2. The Minister advised that he would be disappointed if the recommended minimum wage rate were to fall below 40 percent of the mean weekly earnings and that the Forum should try to increase the minimum wage in accordance with the decision of the States, taking into account the evidence that is available at the time of the recommendation. As always, the Forum will balance aspirations for a higher minimum wage rate along with all of the other relevant factors, consultation responses and evidence.

¹ P.26/2010, as amended

² Calculation based on a 40 hour week

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3. The Minister noted that the UK government has approved an above-inflation increase in the UK minimum wage and that the Low Pay Commission expects to recommend bigger minimum wage increases in the future. The Minister has asked the Forum to report on whether, and in what circumstances, it might be able to recommend bigger minimum wage increases in the future. The Forum will consult on this issue and report to the Minister as part of this review.

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

Table 1 – Jersey minimum wage rates

	2013	2014
Minimum wage (per hour)	£6.53	£6.63
Trainee rate year 1 (per hour)	£4.90	£4.97
Trainee rate year 2 (per hour)	£5.71	£5.80
Maximum weekly offset against minimum wage for accommodation	£71.47	£72.54
Maximum weekly offset against minimum wage for accommodation & food	£95.29	£96.72
Maximum weekly offset against trainee rate for accommodation	£53.60	£54.41
Maximum weekly offset against trainee rate for accommodation & food	£71.47	£72.54

SECTION 3 – Minimum wages in other jurisdictions

UK

The minimum wage rates in the UK will increase from 1 October 2014, as shown in Table 2. The government accepted in full the Low Pay Commission's recommendations for 2014 which included a 3 percent increase in the minimum wage. This is the first time in six years that the rise will be higher than inflation.

Table 2 – UK minimum wage rates

Rate	Age range	Current hourly rate	Hourly rate from 1/10/14	% increase
Adult	21+	£6.31	£6.50	3
Development	18-20	£5.03	£5.13	2
Young person	16-17	£3.72	£3.79	2
Apprentices	Under 19 or first year apprentice	£2.68	£2.73	2

³ www.gov.je/minimumwage

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Isle of Man

The minimum wage rates that have applied in the Isle of Man since 1 October 2013 are shown in Table 3. The minimum wage increased by 3.2 percent at that time but the other rates were frozen at 2011 levels. The Department of Economic Development announced in March 2014⁴ that the Minimum Wage Committee was inviting evidence from interested parties concerning changes to the rate of the minimum wage in the Isle of Man.

Table 3 – Isle of Man minimum wage rates

Rate	Age range	Hourly rate from 1/10/13
Minimum wage	18+	£6.40
Trainee (6 months)	18+	£5.24
Young person	16	£4.67
Young person	17	£5.24

Guernsey

The minimum wage rates that have applied in Guernsey since 1 October 2013 are shown in Table 4. Guernsey's Commerce and Employment Department consulted on the minimum wage in March 2014⁵ and is expected to propose the rates to apply from 1 October 2014 shortly.

Table 4 – Guernsey minimum wage rates

Rate	Age range	Hourly rate from 1/10/13
Minimum wage	18+	£6.50
Young person	16-17	£5.25

SECTION 4 – Summary of 2014 minimum wage recommendation

The Forum consulted during the period 14 June to 9 August 2013 and received 156 responses from a range of respondent types including employees that earn £6.85 or less per hour and employers that employ staff at £6.85 or less per hour. The States of Jersey Economic Adviser and Senior Assistant Statistician provided evidence in person to the Forum.

⁴ www.gov.im/news/2014/mar/27/review-of-minimum-wage-to-be-conducted/?iomg-device=Mobile
⁵ www.gov.gg/article/111386/The-Minimum-Wage--Associated-Rates-Consultation-2014

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Minimum wage

In making its recommendation for a 1.5 percent increase to £6.63 per hour from 1 April 2014, the Forum took into account the consultation responses as well as the following evidence collected in 2013:

- Prospects for the global economy and Jersey's economy remained fragile.
- The Jersey economy was relatively flat in 2011 and a small contraction was forecast for 2012 and 2013.
- The vast majority of indicators did not suggest a sustained upturn in economic activity; recovery was sluggish.
- The level of economic activity in Jersey, as measured by GVA, fell by 1 percent in real terms in 2011, however the decline was less than that seen in the previous three years.
- Average earnings grew by 2.2 percent overall in the year to June 2013.
- Average earnings across the private sector increased by 2.4 percent, higher than the average for the preceding 3 years (1.7% per annum).
- Increases in the minimum wage contribute, at least partially, to annual increases in the average earnings index.
- Minimum wage increases often have a differential impact on wages throughout the business.
- The average annual rate of increase in earnings during the five years since the global economic downturn was 2.1 percent; lower than any annual increases seen in the preceding 20 years.
- Whilst the 2.2 percent average earnings increase was positive, as it was the first increase in real earnings for 4 years, it did not counteract the squeeze on earnings over the previous few years.
- Consultation responses revealed a continued intention amongst some employers to control and freeze wages in order to minimise job losses.
- The RPI increase was low at 1.5 percent but had been higher throughout 2012. Pay awards may have been based on that earlier higher inflation figure.
- Adult minimum wages increased by 1.9 percent in the UK and 3.2 percent in both Guernsey and the Isle of Man.
- Jersey's minimum wage rate continued to be higher than the minimum wages in the UK, Guernsey and the Isle of Man.
- 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).
- In July 2013, the total number of registered unemployed people was 120 higher than a year earlier, but on a seasonally adjusted basis, was 20 lower than the average for the previous 3 months.
- Long-term unemployment was at the highest level recorded to date.

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- Unemployment was low relative to other economies and total employment remained high, despite falling by 210 jobs in the 12 months to December 2011.
- There appeared to be a continuing shift from full-time to part-time working.
- As of December 2012, the number of job vacancies in the private sector was the lowest for at least 13 years.
- The Survey of Financial Institutions showed a real-terms fall in both profits and spending on employment in 2012.
- Compared to the Forum's 2012 review, 7 percent fewer employer respondents had reduced overall staffing levels during the previous year and 19 percent fewer employer respondents had made redundancies during the previous year.
- Employer respondents who paid £6.85 or less per hour to some staff were proportionately more likely than employer respondents generally to have made business changes relating to staff in the previous year (reducing overtime, staffing levels and making redundancies)
- The basic working hours of 20 percent of the employee respondents had been reduced; double the proportion of employees who reported that change in 2012.
- 20 percent of the employee respondents had experienced redundancy in the past year compared to 3 percent in 2012.
- In June 2013, the Finance sector saw some improvement compared with the previous quarter and, for non-finance firms, the future employment indicator was at its least negative for two years.
- In the 2012 minimum wage review, 56 percent of employers and four employers' associations said that the minimum wage should be frozen, compared to 21 percent of employer respondents and 1 employer association in 2013. 36 percent of employers in 2013 supported an increase of up to 13 pence.

The Forum concluded that whilst there were perhaps limited indications of economic improvement and there were continuing challenges for employers, the picture did not appear to be as negative as in the 2012 minimum wage review and calls for a minimum wage freeze were not as prominent. The Forum recommended a 1.5 percent increase to achieve a balance between the aspirations of the States of Jersey and the needs of low paid employees, whilst taking into account the challenges for businesses in preserving jobs and competitiveness given the economic climate.

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

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wage (£4.97 from 1 April 2014) and the 'Year 2' trainee rate should continue to be set at 87.5 percent of the minimum wage (£5.80 from 1 April 2014).

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 be increased proportionately to the minimum wage (a 1.5 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.

2014 Review

The Forum agreed to consider returning to a bi-annual recommendation format in future years, but decided that the economic outlook for 2014 and 2015 was not yet sufficiently clear to enable a recommendation to be made beyond April 2014.

Minister's response

The Minister approved the Forum's recommendations and the minimum wage rates were increased accordingly from 1 April 2014.

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 private meeting with the Forum to discuss your views. If you wish to arrange a meeting, please contact the Forum Secretary; E.Forum@gov.je.

Please submit your comments, no later than Friday 8 August 2014:

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