

# STATES OF JERSEY



## **MINIMUM WAGE: REVISED HOURLY RATE FROM 1ST APRIL 2016 (P.150/2015) – COMMENTS**

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**Presented to the States on 18th January 2016  
by the Council of Ministers**

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**STATES GREFFE**

## COMMENTS

The States' Strategic Plan and Medium Term Financial Plan are clear – we need to grow our economy by increasing productivity, we need to see businesses making more profits and workers being paid more as a result.

These productivity improvements in our economy will help sustain our public finances as our society ages. The number of people over age 65 is expected to rise to 28,000 by 2035, compared to 16,000 today. Within the context of limited and targeted migration, this means that we need to achieve more from our resources if we are to sustain good quality public services as demand rises, in particular, on our health service.

When the Forum's next minimum wage review starts this April, we will provide a clear direction as to what this means for Jersey in terms of our strategic priorities. The Employment Forum must consult with employer and employee stakeholders when recommending a minimum wage, and it must consider the economy of Jersey and competitiveness, and this additional direction will help them do this. They will also be asked to consider and consult upon the UK position.

This is the proper way to take this matter – using the expertise and established processes of the Employment Forum, in the context of the policies agreed by this Assembly, and in consultation with employers and employees. It will also enable proper notice to be given to employers, who must be able to plan their businesses and finances, rather than increasing their costs significantly with less than 3 months' notice, as this proposition proposes.

### **Part (a) – The Council of Ministers does not support setting a minimum wage of £7.20 from 1 April 2016 for the following reasons –**

1. When the Minister for Social Security proposes to increase the minimum wage, the Employment Forum must first consult and make a recommendation to the Minister. This process takes around 6 months and so the statutory process would have to be disregarded if the Minister was to over-ride the most recent legislation to set a minimum wage of £7.20 from 1 April 2016.
2. The Council of Ministers does not support such action, particularly given the recency of the Forum's latest recommendation and the subsequent adoption of the minimum wage Regulations by the States Assembly on 1st December 2015.
3. Businesses expect to be given 6 months' notice of any new minimum wage rates. To increase the minimum wage by 6.2% (an additional 3.4% increase) with only 10 weeks' notice would be irresponsible and unfair to businesses. Prices and tariffs will have been set based on the legislation that has already been put in place. The UK Chancellor gave 9 months' notice of the £7.20 rate.
4. It is important that the UK's £7.20 rate is considered in context –
  - (i) the UK's National Living Wage was a political decision which was announced as part of a 'package' in last year's budget which included reductions in tax credits and benefits as well as a reduction in corporation tax and national insurance contributions for smaller firms;

- (ii) Jersey's minimum wage applies to all employees **over age 16** whereas the National Minimum Wage will only apply to workers **over age 25**. This Proposition requests a minimum wage of £7.20 but does not specify whether it should apply to all employees over age 16, or whether it should apply only to employees over a certain age.
5. There is no requirement to ensure that Jersey's minimum wage is driven by UK policies or that it matches minimum wages in other jurisdictions. Guernsey, the Isle of Man and the UK all set lower minimum wages for young people, but calls for a youth rate have been resisted in Jersey, despite repeated requests during consultation. Employees aged 16 and 17 in Jersey will be entitled to £6.97 per hour. In the UK, 16 and 17 year olds are entitled to 3 pounds less – £3.87 per hour.
6. The Minister intends to direct the Forum to specifically consider the UK's National Minimum Wage in its next minimum wage review, which is due to start in April this year. In deciding whether to consider introducing a higher minimum wage rate, it will be important to consider if different minimum wages should be prescribed for different age groups. The States decided in 2007 to amend the Minimum Wage Regulations to remove the power to prescribe different minimum wages for younger employees.
7. The timing of the UK government announcement meant that the Forum was not able to include questions in its survey specifically on the proposed National Minimum Wage last year. However, the Forum did consider and comment on this as part of the review and discussed it with those stakeholders who attended meetings in person with the Forum in September 2015. The Forum recommended that; *"If the Minister intends to direct the Forum to consult on the possibility of introducing a higher minimum wage similar to the UK's 'premium' wage rate for over-25s, 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."* (Page 34). It is hoped that the debate of this Proposition may provide the necessary steer.
8. The report that accompanies P.150/2015 incorrectly states that Jersey is aiming for a minimum wage set at 45% of the **median** wage. The States of Jersey has, in fact, committed to increase the minimum wage to an hourly rate equivalent to 45% of **mean** weekly earnings no sooner than 2016 and no later than 2026, subject to consideration of jobs, competitiveness and the economy<sup>1</sup>. The earnings distribution is skewed towards higher values, which means that the mean earnings figure will be greater than the median. The aspirations of the States Assembly are therefore already similar to those of the UK government, which is for the National Living Wage to increase to 60% of the **median** wage by 2020, subject to the Low Pay Commission taking into account the state of the economy, employment levels and relevant policy changes. In Jersey, 45% of mean earnings is currently equivalent to 57% of median earnings.
9. The minimum wage of £6.97 for April 2016 – a 2.8% increase – is equivalent to 41% of the June 2015 mean weekly earnings figure and 52% of the latest median weekly earnings figure. As the Forum states in its recommendation, this

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<sup>1</sup> P.26/2010, as amended

demonstrates a commitment to gradually increase the minimum wage within the period of time that has been agreed by the States. The Forum is advocating that the application of sensible increases will allow us to reach the States' target within the agreed timeframe. The Forum noted that *"Representatives of the Jersey Chamber of Commerce, felt that the States' target may be realistic, at least for some of its members, but only if it is achieved steadily, in progressive and sensible increases over a number of years, rather than in big jumps."* (Page 23).

10. The Forum has said that, with improvements showing in key economic measures, it anticipates being more confident in increasing the minimum wage in the future. It is appropriate that we allow that process to take place under the political steer that has been given.

**Part (b) – The Council of Ministers does not support the request for an investigation and report to the States by December 2016 for the following reasons –**

11. Part (b) of the Proposition is not clear in terms of what the Minister is being asked to provide. It requests an investigation in to the impact of a rise in the minimum wage that is sufficient to lift recipients out of relative low income. However, the minimum wage is not an appropriate tool to lift people out of low income as the level of relative low income will depend on a person's household circumstances (e.g. a single person or a family of 4). The purpose of the minimum wage is to establish a level playing field between employers and set a minimum standard in the employment relationship.
12. It is also unclear whether the second element of Part (b) is asking the Minister to assess the impact in Jersey of the change that is happening in the UK, or to assess what the impact would be in Jersey if we were to introduce an equivalent of the UK's National Living Wage.
13. The Minister will direct the Forum to consider as part of its review this year the introduction of the National Living Wage in the UK and will ask the Forum to consult on the possibility of introducing an equivalent to the National Living Wage in Jersey, specifically in relation to the age at which such a higher 'premium' minimum wage rate might apply. The Minister will also direct the Forum to consider again this year the circumstances in which it might be able to recommend bigger minimum wage increases, with a view to increasing the minimum wage more quickly in the future.
14. In addition, the Statistics Unit has confirmed that it will include questions for employers in the Business Tendency Survey for the first quarter of this year that will investigate the potential impact of a higher minimum wage on businesses. This is quick and practical; the results will be included as part of this year's minimum wage review, unlike the investigation that is being proposed.
15. The minimum wage review timetable is as follows –  
  
March 2016 – Minister directs Forum to undertake minimum wage review;  
April-May 2016 – Forum prepares minimum wage review;  
June-September 2016 – Forum consults on minimum wage;

End of September – Forum delivers recommendation to Minister;  
December – Minimum wage legislation approved;  
April 2017 – Minimum wage in force.

16. The timing of the Forum’s review is important so that key statistics and data are available before September 2016. If additional data is presented in December 2016, it would be considered in relation to the minimum wage for April 2018.
17. As in the UK, assessing the impact of introducing a £7.20 rate in Jersey is likely to be based on assumptions. According to the UK’s Office for Budget Responsibility (OBR), the £7.20 rate for over-25s would result in an increase of 0.3% in whole economy compensation of employees, if employers did not make adjustments in employment levels or working hours. However, employers might respond to the higher minimum wage rate by reducing hours, reducing the number of jobs, replacing the over-25s with younger staff, or by increasing prices. The OBR has estimated that the £7.20 rate for over-25s could result in 60,000 to 110,000 fewer jobs by 2020. Estimates in some sectors are higher. The UK Association of Convenience Stores, for example, estimates that 80,000 jobs are at risk in the convenience stores sector alone as a result of the proposed £7.20 rate.

### **Savings**

18. As stated in the Deputy’s accompanying report, the financial implications figures provide the **maximum** income support savings that might be achieved. These figures are likely to be higher than any actual savings in the cost of income support, whether the minimum wage is increased to £6.97 or £7.20. While increasing the minimum wage appears to bring straightforward savings, the data simplifies a complex situation that does not take into account the potential for employers to offset the increased wage costs through job losses (the cost of which in benefit claims could negate any potential savings), reducing hours of work so that the total pay bill for an employee remains the same, or removing other employee perks and benefits, such as overtime pay and pensions.
19. In addition, the stated savings must be reduced to reflect the increased wage cost of a minimum wage increase to the States of Jersey in respect of income support claimants who are taking part in ‘Foundations’ work experience placements. An average of around 30 people are paid the minimum wage by the Social Security Department at any one time while taking part in this scheme.

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### **Statement under Standing Order 37A [Presentation of comment relating to a proposition]**

These comments were submitted to the States Greffe later than the noon deadline on Friday 15th January specified in Standing Order 37A as the internal review processes had not been completed.