

STATES OF JERSEY



MINIMUM WAGE: AMENDMENT (P.135/2013) – COMMENTS

Presented to the States on 2nd December 2013
by the Minister for Social Security

STATES GREFFE

COMMENTS

The Minister for Social Security does not support the Proposition of Deputy G.P. Southern of St. Helier.

To address a number of the points arising from the report –

1. Deputy Southern quotes the terms of a Proposition, adopted by the States in 2010 (P.26/2010), which established the States' aspirations regarding future minimum wage increases relative to the level of mean weekly earnings. Members are reminded that the Proposition was adopted with a crucial amendment that included the words "*subject to consideration of economic conditions and the impact on competitiveness and employment of the low paid in Jersey*".
2. Unlike the Employment Forum's recommendation, the Deputy's report shows little regard for the uncertain economy, or the difficult balance between protecting earnings as well as jobs for the lower paid.
3. The evidence pointing to a need for continued caution includes –
 - In August 2013, the States Economic Adviser advised the Employment Forum that the global and local economies remain fragile. The vast majority of indicators did not suggest a sustained upturn in economic activity.
 - The Fiscal Policy Panel reported in its November 2013 Annual Report that "*Global growth slowed by more than forecast in 2012 and 2013 is expected to see the slowest growth in world output since 2009, below the long-run annual average ... Although growth is expected to accelerate next year, forecasts for 2014–2017 have been considerably downgraded.*"
 - The level of economic activity in Jersey, as measured by GVA, fell by 4% in 2012. This is the fifth consecutive year that the economy has declined on an annual basis. The Fiscal Policy Panel forecasts GVA growth of between -2% and 2% in 2013, and between -2% and 3% in 2014.
 - Consultation responses revealed a continued intention amongst some employers to control and freeze wages in order to minimise job losses.
 - Minimum wage increases often have a differential impact on wages throughout the business. This may become unsustainable leading to job losses.
 - Two-thirds of minimum wage jobs are in sectors that rely on competition with other jurisdictions (agriculture and fishing and hotels, restaurants and bars). Jersey's minimum wage rate continues to be higher than the minimum wage rates in the UK (5.1% higher), Guernsey (2% higher) and the Isle of Man (3.6% higher). This has an impact on the competitiveness of these industries.

- In July 2013, the total number of registered unemployed people was 120 higher than a year earlier, and long-term unemployment was at the highest level recorded to date.
 - 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.
 - Employer respondents who paid £6.85 or less per hour 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).
 - Whilst around one-third of the employer respondents suggested a minimum wage increase to between £6.54 and £6.66 per hour, around one-third of the employer respondents suggested a minimum wage freeze or reduction, i.e. £6.53 per hour or less.
4. Deputy Southern is proposing a minimum wage of £6.77 per hour. None of the employer respondents who paid £6.85 or less per hour supported an increase to £6.76 or more per hour.
 5. Deputy Southern bases his calculation for an hourly rate of £6.77 on a 39.2 hour average working week, as reported in the 2011 Jersey Census. Given that the average working week is lower (by 0.3 hours) than the average reported in the previous census in 2001, he suggests that the Employment Forum should apply the figure of 39.2 hours, instead of 40 hours, in calculating the minimum wage as a percentage of the level of mean weekly earnings. The Forum has consistently made that calculation based upon a 40 hour week in order to provide a proportionate comparison each year. At no time has it been suggested that the figure from the latest census should be used. Forty hours is a standard number of weekly working hours used for conversions relating to wage comparisons across jurisdictions, for example, where the minimum wage is not expressed as an hourly rate.
 6. Almost two-thirds of minimum wage paying jobs are in the hospitality and agriculture sectors. In these sectors, employees typically work more than 40 hours per week. According to the 2011 census, 43 hours is the average per week in the hospitality sector and 45.4 hours is the average per week in the agriculture sector. If we decide that the number of weekly hours should not remain constant at 40 hours and, for example, make the calculation based on a 45 hour week, the £6.63 minimum wage set for April 2014 would be equivalent to 45.2% of the level of mean weekly earnings.
 7. Deputy Southern states that the Forum has matched the minimum wage increase to the increase in the Retail Prices Index instead of the increase in the RPI (Low Income) figure which he considers to be the more appropriate index. The Forum's minimum wage recommendation is achieved, not by applying any particular index, but by considering and taking a balanced view of all of the evidence, including the relevant indices and economic evidence.

8. If the Forum was to fix the minimum wage rate by reference to any particular index, the RPI (Low Income) figure is unlikely to be most appropriate index. According to the Statistics Unit, the greater annual increase of RPI (Low Income) over the 12 months to June 2013, compared with the other price indices, was primarily due to the greater weight given in this index to domestic energy costs and to public and private sector rent. Half of the minimum wage earners in Jersey work in industries where accommodation is typically provided as part of the employment package, and the minimum wage Regulations apply a maximum value to the cost of that accommodation.

The Minister is satisfied that, in reaching its recommendation for a minimum wage increase of 10 pence per hour, the Employment Forum balanced all of the statistical data, economic evidence and responses from employers and employees, as well as considering jobs, competitiveness and the States' decision that the minimum wage should increase relative to 45% of the level of mean weekly earnings by 2026. The Minister is mindful of the wider direct and indirect impacts that an additional 14 pence per hour might have.

The Employment Forum's consultation revealed that businesses continue to be concerned about the period of notice of new minimum wage rates and the uncertainty that this brings. To give employers as much certainty as possible in setting new tariffs and prices, the Minister made an Order on 25th October that will increase the minimum wage and the trainee rates, in accordance with the Employment Forum's recommendations, from 1st April 2014.

Members are urged to support the recommendations of the independent Employment Forum and to reject this Proposition.