

STATES OF JERSEY



MINIMUM WAGE: REVISED HOURLY RATE FROM 1ST APRIL 2010

Lodged au Greffe on 8th February 2010
by Deputy G.P. Southern of St. Helier

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion –

to request the Minister for Social Security, having sought the views of the Employment Forum as required by Article 18(1) of the Employment (Jersey) Law 2003, to make an Order fixing the minimum wage at £6.28 per hour and, as this figure is different from the £6.20 rate recommended by the Forum, to report to the States as required by Article 18(4) of the Employment (Jersey) Law 2003.

DEPUTY G.P. SOUTHERN OF ST. HELIER

REPORT

The recommendations of the Employment Forum on the minimum wage rates for 2010 are summed up as follows –

SUMMARY OF RECOMMENDATIONS FOR 1st APRIL 2010

	1 April 2009	1 April 2010
Minimum Wage	£6.08	£6.20
Trainee Rate	£4.56	£4.65
Accommodation offset	£66.52	£67.85
Accommodation & food offset	£88.69	£90.46

In arriving at this figure for 2010, the Employment Forum examined a wide range of factors. The table below illustrates their impact on the minimum wage rate.

	Minimum wage per hour
Retail Price Index -0.4%	£6.06
Retail Price Index (X) 2.8%	£6.25
Retail Price Index (Y) 2.9%	£6.26
Average Earnings Index 3%	£6.26
Mid point between RPI and AEI 1.3%	£6.16
40% of weekly average earnings (£620)	£6.20
40.5% of weekly average earnings (£620)	£6.28
41% of weekly average earnings (£620)	£6.36
UK % increase (1.2%)	£6.15
Isle of Man % increase (0%)	£6.08

In 2007, the Employment Forum, in its recommendations for the minimum wage had the following to say, in establishing the principle of setting the minimum wage at 40% of average earnings –

“The Forum considers that it is logical to take the June figure of the preceding year and intends to use this formula each year to recommend rates for the following April, subject to consideration, only where necessary, of factors which have had a major impact on the economy, for example an exceptionally good or bad year in the finance industry.

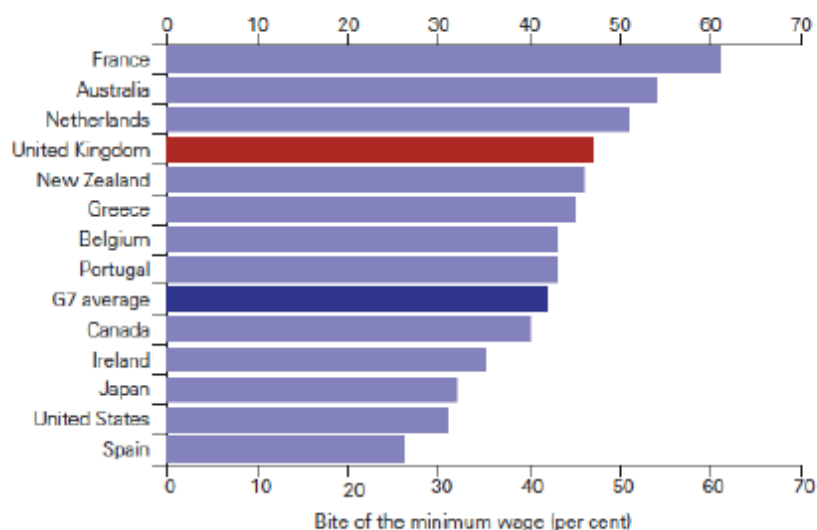
Taking the assumed working week of 40 hours, 40% of the average earnings across all sectors of £540 per week, equates to £5.40 per hour.”

This figure of 40% of average earnings was adopted following comparison with other countries’ minimum wage rate given in the chart and table below.

Minimum wages as a percentage of average wage in other jurisdictions

	% of average wage		% of average wage
Australia	48.72	New Zealand	52.55
Belgium	47.5	Poland	34.97
Bulgaria	50.7	Romania	33.06
Canada	36.55	Slovakia	37.16
Czech Republic	38.21	Slovenia	43.25
France	50.42	Spain	36.04
Greece	64.83	Turkey	51.55
Japan	25.4	UK	39.99
South Korea	23.43	USA	33.91
Latvia	39.74	Total	822.8
Lithuania	34.82	<i>Average of all countries listed</i>	<i>41.14</i>

Adult Minimum Wages Relative to Median Earnings, by Country, 2008



Source: Government evidence to the Low Pay Commission on the economic effects of the National Minimum Wage, December 2008. (BERR, 2009f)

The minimum wage rate

The Forum recommended in 2006 that the minimum wage for April 2008 should be set by reference to 40% of the overall average weekly earnings, as released in the June 2007 average earnings statistics. This was based on evidence that minimum wages in other jurisdictions are generally around 40% of the average wage of those jurisdictions.

In making its recommendation, the Forum had been influenced by the Economic Advisers advice regarding the States inflation policy and caution regarding the competitiveness of export driven industries. **The Forum emphasized that if the States of Jersey wished to raise the bottom end of earnings, the minimum wage must equate to more than 40% of the average wage in future. Ideally, the Forum would aim to gradually increase the percentage of the average wage used in the formula towards 45% in the future.** For example, 40.5% of the average wage would have given a minimum wage of £5.47 for April 2007. The Forum intends to take this into account in its 2007 internal review of the proposed uprating mechanism.

By 2008 the principle of raising the relative purchasing power of the minimum wage to over 40% of the average had been adopted.

“The Institute of Directors suggested that the minimum wage should be £6.08 per hour, based on a formula of 40.5% of the June 2008 average weekly earnings. Although a number of respondents said that the formula should not be increased beyond 40%, the Forum considers that this is based on an expectation that the 40% figure itself will be significantly above the average earnings figure.”

They concluded as follows –

“The Forum unanimously agreed to show a commitment to very gradually increasing the minimum wage above 40% of weekly average earnings (half a percent increase for 2009).

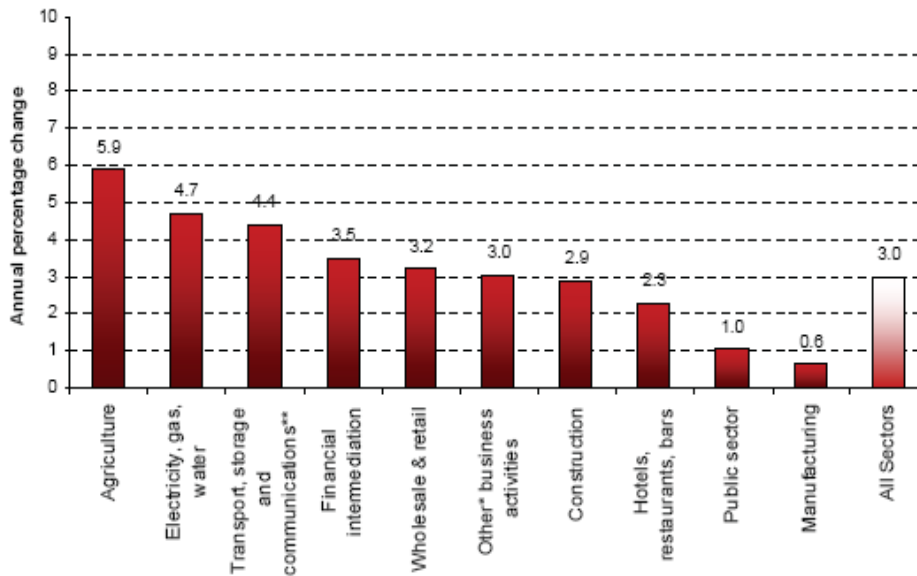
The Forum recommends a minimum wage of £6.08 to apply from 1st April 2009.”

The 2009 figure was set at 40.5% of average earnings. In establishing the level for 2010 the Employment Forum has retreated not only from its own 40.5% benchmark figure, but it has also abandoned its stated aim of gradually raising the relative value of the minimum wage. Worse still the Forum has reverted to the 40% mark and thereby failed to protect the position of the low paid.

The June 2009 figure for the rise in the Average Earnings Index (AEI) was 3% overall. The figure for the private sector was 3.3%. These overall figures however mask the trends in the low paid sectors. The sectoral figures are given here:

Individual Business Sectors

Annual percentage change in average earnings by sector



The traditional low-paid areas of employment, agriculture, retail and hospitality, saw average earnings rise markedly. The award of only a 2% rise to those on the minimum wage to the hourly rate of £6.20 for 2010 actually reduces the protection offered to these lowest paid; it makes their relative position worse. This proposition simply restores the 40.5% benchmark set the previous year. It produces an extra 8 pence per hour and raises the minimum wage to £6.28.

In percentage terms, the rise in the minimum wage proposed in this report amounts to 3.3%, coincidentally identical with the AEI in the private sector. It also matches the RPI (Low Earnings) figure for December 2009.

What this proposal does is to restore those on the minimum wage to the position established in 2009. Any figure below this effectively reduces the protection offered by the States to our lowest earning workers. Especially in times of hardship I believe we must maintain this protection. We should not allow the lowest paid to bear the brunt of the recession.

Financial and manpower implications

There are no direct manpower or financial costs to the States.