

# STATES OF JERSEY



## **MINIMUM WAGE: REVISED HOURLY RATE FROM 1ST APRIL 2010 (P.14/2010) – COMMENTS**

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**Presented to the States on 18th February 2010  
by the Minister for Social Security**

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**STATES GREFFE**

## COMMENTS

The Employment Forum was set up under the Employment (Jersey) Law 2003 as having a statutory duty to monitor the economic impact of the minimum wage and to make recommendations to the Social Security Minister regarding any future increases.

The relevant sections of the Forum's October 2009 recommendation are presented below to bring to Members' attention the evidence and careful consideration that has gone into the recommendation, following 6 months of research and public consultation.

The Minister believes that the Forum's recommended rate of £6.20 is balanced and appropriate and members are urged to support the Forum's recommendation by rejecting both the proposition and the amendment to the proposition.

**Employment Forum – Minimum Wage Review 2009**

*Presented to the Social Security Minister on 27th October 2009 and accepted by the Minister on 3rd November 2009.*

*Excerpt from pages 6 to 11.*

**“Economic Implications - Impact on businesses**

In the Forum’s 2006 review, most respondents indicated that the minimum wage increase had a minimal impact on their business. By the 2008 review, respondents appeared to be becoming more concerned about the impact of minimum wage increases than previously.

In this minimum wage review, respondents were asked if there is any particular information or issues that they would ask the Forum to take into account, particularly in regard to whether the minimum wage should be adjusted.

The majority of employers who responded across all industries represented in the consultation stated that they were in favour of either freezing the minimum wage, or applying only a minimal increase from April 2010. Concerns were expressed about the effect on wage differentials, employers passing on additional costs to customers and pushing up prices even further, making businesses unsustainable and leading to redundancies. The Jersey Farmers’ Union (“JFU”) stated that *“with the present uncertainty it would be prudent to leave the minimum wage at its present rate. The current £6.08 level will still provide a safety net against very low wages.”*

The Jersey Hospitality Association (“JHA”) commented that, *“keeping hospitality businesses competitive in the current economic climate, without increased operational costs e.g. unacceptable increases to the Minimum Wage, would be seen as a welcome support mechanism for our sector.”*

A Law firm stated that *“the current economic climate is very unstable and it is not clear at this stage if, and when, the situation will improve. Many business have, or are in the process of, implementing pay freezes and other measures which will have a negative financial impact on the entirety of their workforce.”*

The Forum noted that the respondents generally did not oppose a realistic or minimal increase in the minimum wage, but did oppose a significant increase in the minimum wage on the basis that it would jeopardise businesses and jobs; one Hospitality and tourism employer commented that it is *“unlikely that we would be able to avoid redundancies if there is to be a significant increase in the minimum wage, which would also necessitate increases at other levels to maintain differentials. All other possible actions to reduce wage cost have been exhausted.”*

The Forum appreciates the importance of differentials, noting the comments of a Law firm who said that an increase in the minimum wage *“could place employers under considerable pressure from other employees who will not have benefited from a pay rise. An increase in minimum wage could have a knock-on effect on employees and*

*areas of business where people are generally paid above the minimum wage but are not, this year, receiving pay increases.*”

Employers were also asked by the Forum whether the downturn in the economy has led to changes in certain aspects of their business, in particular about increases or decreases in their staffing levels, prices, profits, quality of service, employees’ terms and conditions of employment in regard to basic working hours, overtime and other benefits, such as bonuses and tips.

Most of the employers who responded reported a slight or significant decrease in profits and prices. In some Hospitality and tourism businesses, employee’s basic working hours appear to have been reduced, overtime has been banned, and there is some evidence that end of season bonuses have been discontinued. In some cases, these changes have been driven by reduced custom and demand. The feeling from the Hospitality and tourism industry in general is that a significant increase in the minimum wage could lead to redundancies due to the “wage to revenue” percentage becoming unsustainable.

The Forum notes that such changes in terms and conditions will have impacted already on lower end earners who may be more reliant on bonuses and overtime as a significant part of their overall employment package. An anonymous respondent noted the effect of the rise in costs in terms of the effect low paid employees; *“The majority of employers I work with have frozen pay in 2008 /2009 and are not paying cost of living increases unless contractually obliged to do so. This is a double hit on many low income families who are coping with the burden of increased costs and no wage increase to offset them.”*

Unite pointed out that *“Although RPI has decreased the prices of many essentials have been rising at a far higher rate than RPI inflation (Food 4%, Household Goods 4%, Household Services 5%, Fares & other travel 4% and Leisure services 6%)..”*

Looking at the particular details of the food increases detailed in the June 2009 Retail Price Index report, price rises were seen across the majority of the food groups for the year as a whole. For the quarter March to June 2009, the increase in the prices of bread and cereals was reported to have been offset by the lower cost of fresh fruit and vegetables. The Statistics Unit reports that *“this latest annual increase is the lowest increase in the past 2 and a half years and is substantially below that of previous quarters; food prices rose on an annual basis by 13% in both June and September 2008; by 14% in December 2008; and by 9% in March 2009.”*

JACS stated that, *“Bearing in mind that the minimum wage is intended to be an “underpinning” wage rather than what would be regarded in Jersey as a “living” wage, and the much publicised cost of essentials (food, utilities etc), we believe an increase to at least maintain the purchasing power of the minimum wage is essential.”*

The Forum has recognised the concerns of employers and has balanced this against the need for an increase in wages (particularly for local employees) in view of significant rises in the costs of food and other services.

### **Statistical and Economic information obtained during consultation**

The Economic Advisor updated the Forum on economic conditions in May 2009, commenting that, *“with the global economy facing the worst outlook for 60 years, the*

*Jersey economy is likely to experience a significant downturn over the next 18 months. This requires continued caution in recommending minimum wage increases, however the concern is no longer about inflation, but relates to protecting jobs and keeping businesses competitive both in the local and international market place.*

*The global economic crisis has been driven by a banking related financial crisis; however jobs are at risk in Jersey in both the finance and non-finance industries. In response, the States has agreed a significant package to stimulate the economy on the recommendation of the Treasury and Resources Minister with the intention to support employment and businesses in the Island, through policies that are targeted, temporary and timely.”*

The 2009 Index of Average Earnings measures changes in average earnings received between the last weeks of June 2008 and June 2009<sup>1</sup>. Unlike the Retail Price index, the average earnings index is not influenced directly by the Bank of England base rate. The latest increase in average earnings is the lowest since 1995 and is 1.3 percent lower than in the previous twelve month period.

The average earnings increase was greatest in the Agriculture industry - a 5.9 percent increase - compared to an increase of 3.5 percent in the Finance sector. The Statistics Unit report attributes this increase predominantly to the 4.3 percent minimum wage increase in April 2009, however given that the Hospitality and tourism industry is also a minimum wage paying employer, the Forum was interested to note that “Hotels, restaurants and bars” showed only a 2.3 percent increase in average earnings during the same period.

The Statistics Unit’s 2008 report on the Gross Value Added (GVA) and Gross National Income (GNI)<sup>2</sup> shows that the Island's economy continued to grow in real terms by 2 percent in 2008, however this was a lower rate of growth than had been seen in each of the previous two years.

The Jersey Retail Prices Index (RPI) has decreased by -0.4 percent in the year to June 2009. The Forum considers that RPI(X) is a more appropriate index on which to base minimum wage decisions given that this index excludes the cost of house purchase and is therefore more relevant to minimum wage earners who are unlikely to own their own property. The Jersey Advisory and Conciliation Service (“JACS”) believes that, bearing in mind the purpose of the minimum wage, it must at least keep pace with the RPI(X) figure, which is 2.8 percent.

Unite the Union asked the Forum to consider that, *“Since the introduction of a minimum wage in Jersey in 2005 employment levels have remained stable with 53,280 in June 2005 and the latest figure available being 53,540 for December 2008. Within this private and public sector employment has remained steady also.”*

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<sup>1</sup> In the previous minimum wage review, JACS was concerned that by applying AEI, the minimum wage is set in reference to data that may not be relevant to those industries in which the minimum wage is typically paid. The Statistics Unit has reported that for the year to June 2009, the average overtime payment across private sector employment was £20 per week. In, 2010, matched pairs may be available for this data which may give a clearer indication of the influence of overtime on the index.

<sup>2</sup> [www.gov.je/NR/ronlyres/8D99C151-F123-4419-B34C-34D97F0BDA10/0/GVAandGNI2008.pdf](http://www.gov.je/NR/ronlyres/8D99C151-F123-4419-B34C-34D97F0BDA10/0/GVAandGNI2008.pdf)

More recent figures released by the States Statistics Unit reveal that total employment at June 2009 has since decreased for the first time in five years; the net decrease in the private sector was 380. Decreases were seen in Wholesale and retail (-210) and in Hotels, restaurants and bars (around -200).

#### SECTION 4 – RECOMMENDATIONS

The current minimum wage is £6.08 per hour which (based on a 40 hour week) gives average earnings of £243.20 per week. This is 40.5% of the average weekly wage of £600 (as reported at June 2008). The Forum has considered the rates resulting from the following methods of increasing the minimum wage based on the indices and comparators available to it;

	<b>Minimum wage per hour</b>
Retail Price Index -0.4%	£6.06
Retail Price Index (X) 2.8%	£6.25
Retail Price Index (Y) <sup>3</sup> 2.9%	£6.26
Average Earnings Index 3%	£6.26
Mid point between RPI & 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

The Forum notes that the UK has applied a 1.2 percent increase to the National Minimum Wage from 1 October 2009. Average earnings in the UK increased by 2.1 percent for the year June 2008 to June 2009 (an increase of 1.6 percent in the private sector and 3.7 percent in the public sector).

The UK's Retail Price Index for the same period decreased by -1.6 percent, with RPI(X) and RPI(Y) increasing by 1 percent and 1.9 percent respectively. In the same period, Jersey's Retail Price Index decreased by -0.4% whilst RPI(X) and RPI(Y) increased by 2.8 percent and 2.9 percent respectively.

In most countries, minimum wages are around 40 percent of median earnings (see Appendix 1). The Forum is of the view that no matter what percentage increase is applied to the minimum wage, to protect Jersey's international reputation, the weekly rate should not fall below 40 percent of Jersey's average weekly wage.

In its 2008 minimum wage review, the Forum noted that there had been continued growth in the economy, including in the Agriculture and Hospitality industries and considered that the move to 40.5 percent of the weekly average earnings was appropriate at that time; however the Forum recognised that the minimum wage rate and the uprating formula should be reviewed again in 2009 when there may be a clearer indication of any impact of economic decline.

The Forum considers that it is now clearer that there will not be a rapid recovery from economic decline in 2010; growth has been slower than in previous years, total employment in the Island has decreased, there is a real concern about further

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<sup>3</sup> RPI(Y) excludes the cost of house purchase and the effect of indirect taxes such as GST.

redundancies and there has been a significant increase in appeals from employers and employer associations to freeze the minimum wage. For these reasons, the Forum considers that it would be reckless to push earnings beyond 40 percent of weekly average earnings for this year. A further review will be required in 2010.

The Forum believes that unless an increase is applied with great caution on this occasion, the Forum would risk damaging jobs in Retail, Hospitality, Agriculture, and possibly other industries.

The Forum therefore recommends a 2 percent increase, giving a minimum wage of £6.20. The Forum is aware that this is less than the increase in RPI(X), however considers that this caution is essential to protect jobs at this time. In the Forum's view, the greatest concern in this year's review is to avoid triggering redundancies."