

STATES OF JERSEY



MINIMUM WAGE INCREASE AND PRODUCTIVITY SUPPORT (P.100/2020): COMMENTS

Presented to the States on 4th September 2020
by the Council of Ministers

STATES GREFFE

COMMENTS

Overview

The Council of Ministers oppose **Part (a)** of the Proposition.

Part (a) seeks to request the Chief Minister, in co-operation with the Social Security Minister, to take steps to increase the minimum wage rate to £8.66 an hour from 1st April 2021. A minimum wage rate of £8.66 an hour would represent an increase of 4.1% on the current rate of £8.32.

The Social Security Minister has the responsibility, under the provisions of the [Employment \(Jersey\) Law 2003](#), to set the minimum wage having taken advice from the Employment Forum (Article 18 of the Law). The Minister cannot take a decision, or make an Order, in respect of the minimum wage rate without having asked the Forum to consult and to prepare its conclusions and recommendations.

The Council of Ministers remains committed to the minimum wage target which was set out in [P.121/2017](#). It states:

“THE STATES, adopting the proposition of Deputy Geoffrey Peter Southern of St. Helier, as amended, agreed that the minimum wage should be set at 45% of average earnings by the end of 2020 subject to consideration of economic conditions and the impact on competitiveness and employment of the low paid in Jersey; and requested the Employment Forum to have regard to this objective when making its recommendation on the level of the minimum wage to the Minister for Social Security;...”

The current economic conditions are exceptional and, while the Council of Ministers maintains its commitment to the target level, the unprecedented disruption to normal economic activity and local employment is such that an increase in minimum wage levels is not a priority for 2020.

However, the Minister for Social Security will keep the issue under regular review and will instigate a minimum wage review as soon as economic conditions have stabilised.

Background

The Social Security Minister is not required to initiate a minimum wage review at any particular time. However, it has been customary to undertake a review on an annual basis.

In a normal year, planning for a minimum wage consultation would begin in the Spring, with a consultation document issued in June. The process allows time for a detailed consultation and for the Employment Forum to present its conclusions and recommendations to the Minister in October, giving businesses 6 months' notice of any change in the rate.

In March 2020, the Fiscal Policy Panel provided [advice](#) on the likely impacts of a sustained economic downturn as one of the consequences of the coronavirus pandemic. It said:

“The impact... on the economic outlook is extraordinarily difficult to predict. However, the Panel’s judgement is that the most likely outcome will involve:

- 1. A fall in employment from the recent peak, as firms seek to cut costs to mitigate the fall in demand or are forced to close;*
- 2. Lower inflation in 2020 due to lower oil prices and mortgage payments. However, other inflation pressures could work in either direction, as supply chain disruption or other shortages could cause pockets of high prices, but there will be downward pressure on other prices due to reduced demand;*
- 3. A fall in average earnings, due to a combination of lower demand for labour and lower inflation;*
- 4. Lower interest rates, in line with market expectations and with the Bank of England’s decision to cut rates, to a record low of 0.1%;*
- 5. A fall in profits in the financial services industry, partly driven by lower interest rates, and a much sharper fall in non-finance sectors due to reduced demand and supply chain disruption;*
- 6. A sharp slowdown in the housing market with a very limited number of sales during the peak of the outbreak and for some time after;*
- 7. Some firms and individuals experiencing extreme economic hardship.”*

As a result of the lockdown, which began in March 2020, restrictions were imposed which led inevitably to enormous disruption to normal business activity. At that time, the Fiscal Policy Panel was forecasting a **drop** in average earnings for 2020 of 0.6%..

On 26th June 2020, the Social Security Minister wrote to the Chair of the Employment Forum (“the Forum”), indicating that she did not intend to refer the matter of the minimum wage rate to the Forum in the present economic conditions.

Average Earnings Index

The Average Earnings Index was published on 28th August and showed an average **rise** of 1.1% across all economic sectors. The accompanying report identified considerable differences between private sector and public sector wage levels and within the private sector.

Private sector earnings increased by just 0.7% and significant decreases in average earnings were identified in 2 sectors where the use of the minimum wage is common: hotels restaurants and bars down by 10.2% and agriculture down by 11.9%.

As noted in the report, the wage information for the Index was gathered in June 2020, at which time many businesses were receiving wage subsidies from the government

through the Co-Funded Payroll Scheme. In June 12,280 jobs were supported across 2,790 businesses at a cost to the government of over £16 million.

As at 28th August, the Co-funded Payroll Scheme had provided more than £69 million of wage support to businesses in total and the scheme has been extended to March 2021. At this stage, it is difficult to assess the eventual impact of the scheme and how businesses will react as publicly funded support is withdrawn.

This ongoing element of wage subsidy makes it more complicated to interpret the underlying economic wage levels and it would be difficult for businesses and workers to respond meaningfully to a consultation seeking information on a possible increase in the minimum wage while these subsidies are still in place.

Fiscal Stimulus

Alongside the Co-Funded Payroll Scheme, the Council of Ministers has taken other bold steps to support the local economy. A temporary reduction in employee Social Security contributions will be debated on 8th September. This proposal is due to last for 9 months from October 2020 until the end of June 2021 and will increase take-home pay by 2% for those earning under the Standard Earnings Limit. For a worker on minimum wage, this is equivalent to an increase in take-home pay of 2% from October 2020. This will help to stimulate the economy and support lower paid workers, with the impact being felt from next month. This temporary measure is an effective and targeted route to support the local economy.

In the next 2 weeks, all islanders will receive a £100 “spend local” card, to be used in a local business. This also provides timely and targeted support to local businesses and their employees.

The Deputy’s report acknowledges the additional number of income support claimants following the Covid disruption. At the end of July 2019, there were 5,260 claims for Income Support. At the end of July 2020, this figure had risen to 6,370 claims. This increase of 13% is driven almost entirely by employees losing their jobs.

The focus of the government is to return workers to employment as soon as possible to avoid the significant damage of long-term unemployment to these workers. The fiscal stimulus measures aim to support local employment and help businesses remain viable over this difficult time.

Conclusion

The Covid-19 pandemic continues to have a serious economic impact in Jersey. The next few weeks and months present an uncertain climate for businesses and employees. The Council of Ministers considers that, because of that uncertainty, the most important focus should be on helping businesses to make every effort to recover and stabilise, protecting jobs for local workers.

The Council of Ministers does not support the political imposition of a minimum wage at a fixed rate without having received advice from the independent Employment Forum.

Asking the Forum to conduct a consultation to seek views on an increase in minimum wage levels at this time would add another burden to businesses at a time when they are fighting for survival. The ongoing widespread use of the Co-Funded Payroll Scheme makes it difficult to judge the true economic impact of an increase in wage costs. Businesses, individuals and organisations would not be focused enough on the type of consultation exercise necessary for the Forum to be able to arrive at a properly informed conclusion and recommendation.

The Social Security Minister is committed to keeping this issue under regular review. As soon as economic conditions have stabilised to the extent that a consultation exercise would have value and, most importantly, credibility, support and proper engagement, she will instigate a minimum wage review.

Members are urged to reject Part (a) of this Proposition

Comments in relation to part (b)

The prosperity of our Island, and the funding of the services on which we rely, depends on a sustainable, vibrant and inclusive economy, underpinned by a skilled local workforce to serve it. Our economy must be supported if it is to grow, innovate and diversify. We must also stabilise and reverse the recent declines in productivity, because low productivity impacts our economic competitiveness, earnings, and ultimately Islanders' quality of life.

Increasing productivity and the creation of an effective economic framework is intrinsically linked to increasing the economic success of the Island and as such, remains a central priority for the Council of Ministers.

Indeed, one of the principal motivations behind the Future Economy Programme is the observation that while the average economic standard of living in Jersey – measured by Gross Value Added (GVA) per head of population – is high (at £44,080¹ per head of population),² it fell by more than a fifth (23%) in real terms between 2000 and 2018.³ Productivity – as measured by the amount of output GVA per Full-Time Equivalent (FTE) – has also fallen substantially, by 27% (in real terms) between (the peak in) 2000 and 2018.⁴ However, it has remained relatively flat since 2012.⁵

The Jersey economy is challenged by low productivity growth in both the finance and non-finance sectors. After the financial and economic crisis in 2008, productivity in the finance sector fell markedly. Between 2007 and 2018, the productivity of the Island's economy fell by almost a quarter, largely driven by the fall in productivity in the finance sector. In the non-finance sector, productivity has been broadly flat. Over the long-term, the productivity of the non-finance sectors in 2018 was only 2% higher than in 1998 in real terms. Productivity in the financial services sector in 2018 was almost 3 times that

¹ Government of Jersey (2019). '[Jersey's GVA per head of population in real terms \(constant 2018 values\)](#)', accessed 20 December 2019.

² This compares favourably to the UK, which in 2018 had GVA per capita of around £28,729. Source: ONS (2019). '[Regional gross value added \(balanced\) per head and income components](#)', Table 2, December, accessed 20 December 2019.

³ Government of Jersey (2019). '[National accounts: GVA and GDP](#)', accessed 20 December 2019.

⁴ Statistics Jersey (2019). '[Measuring Jersey's economy: GVA and GDP - 2018](#)', October.

⁵ Ibid.

of the non-finance sectors overall (£51,000 per FTE). A factor behind lower productivity growth in recent years has been an increase in employment in lower productivity sectors.

Productivity is a key determinant of quality of life and wellbeing, where it has seen a significant fall over the past decade. If productivity declines are not addressed, Jersey's fiscal plans will not be able to be realised. In addition, continued decline in productivity, together with ageing population, increases reliance on inward migration, which will impact upon the emerging migration policy.

Previously, Jersey's Fiscal Policy Panel's central forecast⁶ is for Jersey's trend rate of economic growth (based on GVA) to be around 0.6% beyond 2022, a rate that means it will be challenging to meet the Government of Jersey's Strategic Priority to improve the standard of living in Jersey.⁷

Consequently, officials continue to focus analysis on those specific areas that could affect productivity, but note that productivity, as measured by GVA per FTE, is only one way of measuring economic success and on review of international precedent, it is clear that there is a shift towards governments considering a wider set of metrics, related broadly to the wellbeing of citizens.⁸

Consistent with this, the Future Economy Programme continues to assess future policies to boost all sectors of the economy and, in particular, the impact that these may have on the sustainability of its 5 sources of capital (Financial, Human, Manufactured, Natural and Social), which are all likely to influence productivity (and wellbeing) over the long term.

The design of the proposed Productivity Support Scheme is currently being progressed by officials with the aim of bringing the scheme forward in Q1 of 2021, subject to funding being approved in 2021 within the Government Plan, providing consistency with the current Common Strategic Policy (CSP), Government Plan and the Proposition ([P.100/2020](#)).

⁶ Jersey's Fiscal Policy Panel (2019). '[Annual Report](#)', October.

⁷ Government of Jersey (2019). '[Common Strategic Policy 2018-22](#)', p. 6, February.

⁸ In particular, we note the establishment of the Wellbeing Economy Alliance, a '*global collaboration of organisations, alliances, movements and individuals – working together to change the economic system...[to] one that delivers human and ecological wellbeing*'. Source: Wellbeing Economy Alliance (2019).