

No:

Memorandum for Executive Council

SUBJECT Employment Rights (Minimum Wage) Amendment Regulations, 2018

Memorandum by Government Economist

- ADVICE SOUGHT**
- 1. Executive Council is asked to approve the Employment Rights (Minimum Wage) Amendment Regulations, 2018, attached at Annex A, to come into force on the 1st July 2018.**
 - 2. Executive Council is also asked to prescribe that the Minimum Wage is now £3.05 per hour for persons aged 18 years and older; and £2.10 per hour for persons under the age of 18 years.**
- BACKGROUND & CONSIDERATIONS**
3. The Employment Rights Committee was appointed by the Governor in accordance with section 7(2) of the Employment Rights Ordinance. The Committee was tasked with making recommendations to the Governor in Council with respect to the hourly Minimum Wage. The recommendations were made to the Social and Community Development Committee who discussed and agreed with the report's recommendations.
 4. The process of reviewing the Minimum Wage started in December 2017 and this followed on from previous work in May 2017 which led to an increase in the Minimum Wage in August 2017 from £2.60 to £2.95 for adults which was the first increase in 2.5 years.
 5. The general strategy which was agreed amongst the Employment Rights Committee was to continue to gradually increase the Minimum Wage over time. It was agreed that there would be regular increases which would be consulted on in January and commenced in April of each year. This was based on the response from businesses who said they would like to see small regular increases rather than sporadic large increases.
 6. With respect to the Employment Rights Ordinance and Regulations, the Employment Rights Committee recommended that:
 - a. the Minimum Wage should be increased by 10p to:
£3.05 per hour for all employees having attained the age of 18 years;
£2.10 per hour for all young people having attained the age of 16 and 17 years.
 - b. The Minimum Wage rate that has been determined should apply as soon as possible after 1 April 2018. In accordance with the Ordinance, this should be for the pay reference period commencing 1 July 2018 and ending 31 March 2019, allowing for 3 months' notice to be given to businesses.
 7. The Employment Rights Committee also recommended that:

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- a. The next increase in the Minimum Wage should be timed for 1 April 2019. Prior to any changes on 1 April 2019, it is recommended that the gap between the Minimum Wage for 16 and 17 year olds and for over 18 year olds be considered. The Employment Rights Committee have agreed to meet in Quarter 3 of 2018 to progress this.
 - b. PAYE data collection should hereafter include data on hours worked as well as income earned, in order to gain a better picture of those working at Minimum Wage; the Tax Office is currently undertaking this task by asking employers to include hours worked on the P7 Form.
8. The St Helena Minimum Wage report by the Employment Rights Committee is appended at Annex B which includes significant detail on evidence behind these recommendations.
 9. Section 8(2) of the Ordinance states that *'The annual recommendations under subsection (1) must be made at least 3 months before the expiry of the current pay reference period'*. This is in order to provide businesses with three months' notice of the change. The increase will therefore come into force on 1 July 2018. In order to proceed with a 1st April increase in the future, the pay reference period will need to cease on 31 March 2019, and the recommendations made by the Employment Rights Committee to the Social and Community Development Committee must be tabled before December 2018 and agreed at Executive Council in December 2018.
 10. Furthermore, it was also suggested by the Attorney General's Chambers that the term 'pay reference period' in the Ordinance be changed to 'pay interval' wherever it occurs in regulations 6, 7, 8 and 9 to remove ambiguity. This is because currently, the pay reference period both describes the period for which the Minimum Wage rate is valid for i.e. 1 August 2017– 31 May 2018 (e.g. *Section 11(1) of the Ordinance states 'The minimum wage is such single hourly rate as the Governor in Council prescribes by notice in the Gazette for a relevant pay reference period'*) and also describes the regular period for which the person is paid for i.e. the month of April (e.g. *Section 6(1) of the Regulations states 'The hourly rate paid to an employee is to be determined by dividing the amount (whether for output or otherwise) of remuneration paid to the employee by the total hours actually worked in the Pay Reference Period..'*)
 11. As identified in the St Helena Minimum Wage report, attached at Annex C, the change will require an increase in SHG salary grades A1-A4. This will cost SHG £15,000 per annum. This change has already been factored in by HR as part of the budgeting process for 2018-19.
 12. As identified in the St Helena Minimum Wage report, based on 2014-15 income data, the data which is most complete at the current time, there are likely to be around 41 people who will benefit from an increase in Minimum Wage. An academic study suggests that an increase in the Minimum Wage is also likely to increase wages in the bottom 5th percentile by 2.9%, bottom 10th percentile by 1.6%, and bottom 20th percentile by 0.7% of the rate of Minimum Wage change. Should this be the case, the bottom 20th percentile of earners could see some increase

FINANCIAL IMPLICATIONS

ECONOMIC IMPLICATIONS

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in income; this is equivalent to around 1350 St Helenians based on 2014-15 data.

13. There were not many businesses that the Employment Rights Committee had spoken to, that said they pay less than £3.05 at present. However, for those paying the Minimum Wage, there was a preference to raise the Minimum Wage by 10p rather than, say, 15p out of the two options, because of the impact that raising the Minimum Wage causes to their entire pay scale.
14. Prior to introduction of the Minimum Wage in 2013, the Government Economist of the time produced a report on the potential economic impact of the Minimum Wage. He outlined three key concerns: the impact on inflation, the likelihood of unemployment and the impact on businesses. Overall, the Committee felt that the economic impact of the Minimum Wage was not as negative as feared.
 - a. The increase in the Minimum Wage in July 2015 from £2.30 to £2.60 did not accelerate inflation in the three periods after the increase. The rate of inflation slowed from 2.2% in Q2 2015 down to 0.7% in Q1 2016. Equally, the unemployment rate did not significantly increase during this period.
 - b. Considering the latest increase from £2.60 to £2.95 in August 2017: The RPI index at Q2 2017 was 127 and the RPI index at Q3 2017 was 128 and at Q4 2017 was 128.8, showing a very small inflation of 0.7% per quarter. Equally, the unemployment rate did not significantly increase during this period.

Therefore, the current economist believes that the conclusions provided by the 2015 Committee still apply.

CONSISTENCY WITH INVESTMENT POLICY PRINCIPLES PUBLIC / SOCIAL IMPACT

15. Not Applicable.
16. Without the increase in Minimum Wage, St Helenians on the lowest incomes would not be able to purchase the same amount of goods than they did half a year previously, as a result of increasing prices in the shops. The increase of the Minimum Wage maintains the purchasing power of the lowest income groups.
17. The increase will also maintain the gap between IRB payments and Minimum Wage payments, maintaining the incentive to work.
18. It is recognised that in general, wage increases will benefit people in St Helena. There is a balance to be struck between keeping costs low for businesses (so they can maintain staffing levels), ensuring there is enough labour available for businesses to recruit from, and ensuring that the standard of living continues to improve as per the 'Altogether Wealthier' goal under the 10 Year Plan. By recommending a regular gradual increase in the Minimum Wage, a balance is provided between these competing issues. The overall strategy for the Employment Rights Committee is to continue to regularly increase the Minimum Wage over time to help improve St Helena's attractiveness as a place to work.

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ENVIRONMENTAL IMPACT 19. There are no environmental impacts identified.

PREVIOUS CONSULTATION / COMMITTEE INPUT

20. There was a six week consultation process which occurred in January/February. The consultation responses are provided within the appended report. The consultation responses were used to agree the recommendations.

PUBLIC REACTION

21. As part of the consultation process, press releases were provided to inform the public that this review was being undertaken. The rise was recommended for 1 April 2018, however as a result of the Ordinance which requires the Employment Rights Committee to make recommendations three months before the end of the Pay Reference Period, a further three months are required before the changes can take place. Therefore, it is anticipated that there could be public reaction about the timeliness of the change.

22. It is noted that on social media, those living abroad tend to make comment on the current size of the Minimum Wage compared with the UK. It is noted that this comparison is difficult to make as the cost of living differs from the UK.

PUBLICITY

23. Mention will be made in the ExCo Report and associated broadcast, followed by explanation in a separate press release and radio interviews.

24. The public should be made aware of the process of challenging employers when they believe that they are being paid less than the Minimum Wage. This can be made clear as part of the press release.

25.

SUPPORT TO STRATEGIC OBJECTIVES

26. This paper supports the following Strategic Objectives in the Ten Year Plan:

- Altogether Wealthier: We will raise the minimum wage and have a living wage for the Island
- Altogether Wealthier: We will reduce inequality and poverty

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OPEN/CLOSED AGENDA ITEM
Corporate Services
DATE OF MEMO

27. This item is recommended for the open session.

6 March 2018