

St Helena Minimum Wage

Report of the Employment Rights Committee

Final - 13 December 2018

Please note that the original report was developed on 22 November 2018 and has been updated on 13 December to reflect discussions within the Social and Community Development Committee meeting on 12 December. Any new text added to the original report has been distinguished by using this font.

Section 8 of the Employment Rights Ordinance requires the Employment Rights Committee (“the Committee”) to make recommendations to the Governor in Council with respect to

- a) the hourly rate to be prescribed under section 11(1);
- b) the Pay Reference Period for which the hourly rate shall apply;
- c) the method to be used for determining the hourly rate at which a person is to be regarded as remunerated;
- d) any exclusions or modifications that should be made for specified classes of persons under section 11(2).
- e) any classes of persons to which any exclusions or modifications under section 11(2) should apply.

Decision Points

- i. The Committee adopted the view that the Minimum Wage should be increased on April 1 2019.
- ii. The Committee recommends that the Minimum Wage should be increased with effect from 1 April 2019 to:
 - a. £3.10 per hour for all employees having attained the age of 18 years;
 - b. £2.15 per hour for all young people having attained the age of 16 and 17 years.

The Social and Community Development Committee received these recommendations and upon discussion of the issues, chose to recommend an increase with effect from 1 April 2019 to:

- a. £3.13 per hour for all employees having attained the age of 18 years;
- b. £2.18 per hour for all young people having attained the age of 16 and 17 years.

Membership of the Employment Rights Committee

- Honourable Cruyff Buckley (Chairman)
- Mrs Nicole Shamier
- Miss Nicola Essex
- Miss Giselle Richards
- Mr James Kellett

Minimum Wage

The Hourly Rate of the Minimum Wage

1. In July 2018, the Minimum Wage increased from £2.95 to £3.05 (for over 18s) and £2.00 to £2.10 (for 16-18 year olds). The Committee now recommends an increase from £3.05 to £3.10 and from £2.10 to £2.15 respectively.
2. The Committee recommended that the Minimum Wage should be increased on an annual basis on 1 April. This is based upon feedback during the last two consultations in that businesses told us that they would prefer the Minimum Wage to go up annually (and gradually) rather than wait for two years and go up by a large increase.

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In order for businesses to include any changes to the Minimum Wages within their forecasts for the next financial year, the Committee should give early warning.

3. There is a balance to be struck between keeping costs low for businesses, 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 and the “Developing, maintaining and attracting a skilled workforce” goal under the Sustainable Economic Development 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.
4. There are a number of upward pressures on the Minimum Wage.
 - a. Since the Minimum Wage calculation was undertaken (using 2017 Q3 RPI), prices have inflated by 4.1% (between 2017 Q3 and 2018 Q3). *It was noted in the Social Community Development Committee that the price increase was heavily influenced by communication prices (e.g. TV prices increasing) and that inflation for food only was 2.8% (between 2017 Q3 and 2018 Q3).*
 - b. The IRB increased by 11p since the last Minimum Wage update. The 11p increase represented an overall 6% increase in IRB; if benefits increase more than wages, it is providing an incentive not to work.

Table 1: Benchmark increases

	Current MW	Suggested MW by ERC	<i>Suggested MW by SCDC</i>	Inflation since last update	<i>Inflation since last update (food only)</i>	IRB increase since last update %	IRB increase since last update £
Benchmark increase		1.6%	<i>2.6%</i>	4.1%	<i>2.8%</i>	5.99%	3.61%
Equivalent MW	£3.05	£3.10	<i>£3.13</i>	£3.18	<i>£3.13</i>	£3.23	£3.16

5. Lifting the current Minimum Wage rate of £3.05 (brought in on 1 July 2018) to *£3.13* would represent an *8p* increase. By 1 April 2019, the Minimum Wage will have been in force for 70 months (having been introduced on 1 June 2013), and will have increased by *38%* since the Minimum Wage started.
6. Typically, the Minimum Wage for under 18s increases by the same £ amount. Therefore an increase of *£0.08* on the Minimum Wage would mean an increase of the Minimum Wage for 16-18 year olds from £2.10 to *£2.18*.

Consultation Undertaken

Section 9 of the Employment Rights Ordinance requires the Employment Rights Committee to consult-

- a) Such organisations representative of employers as they think fit;
 - b) Such organisations representative of employees as they think fit; and
 - c) If they think fit, any other body or person.
7. A consultation with business and employee representatives was undertaken from 19 October to 16 November 2018. Because the drop in session during the previous Minimum Wage consultation was poorly attended, it was instead decided that email and phone call submissions were requested. There were 3 face to face submissions of feedback, 1 submission by email and 1 submission by telephone. The submissions were in response to both the Minimum Wage increase and the introduction of maternity and paternity pay.
 8. The Employment Rights Committee consulted on two options for a change to the Minimum Wage from 1 April 2019:

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- **An increase of 13p** (4.1%) to £3.18 for persons over 18
This is a 0% real increase in the Minimum Wage as the increase is in line with inflation.
It was proposed that the Minimum Wage for persons aged 16 or 17 would also increase by 4.1% to £2.18.
 - **An increase of 20p** (6.5%) to £3.25 for persons over 18.
This is a 2.4% real increase in the Minimum Wage, after inflation is taken into account. This option will mean real salary increases for low income workers
It was proposed that the Minimum Wage for persons aged 16 or 17 would increase by inflation to £2.18, in order to maintain an incentive to study.
9. A crèche provided a response to the Minimum Wage Consultation. Their business relies on just under 10 Minimum Wage staff, and they told us that an increase in the Minimum Wage of 13p could cause a direct increase to their prices by £10-£25 a month depending upon the service provided. They did a straw poll with their customers and they received feedback to say that because other salaries are not increasing across the board, and because of the downturn in revenues and general economic outlook at this time, this would be a real squeeze on the users of the service. The owners worry that the price increase would reach a tipping point for some so that they would leave their children with their grandparents more often, or even consider changing the food that their children eat to cut costs. This would put the financial viability of the crèche at risk.
10. The issue of increasing childcare costs will affect those parents who are not seeing inflationary increases in their pay. The question of childcare allowances/child benefit/child tax credit is one being considered by the social security working group and the Employment Rights Committee feels that it is an issue which should be progressed.
11. Other feedback from business is that the last Minimum Income increase made them streamline their staff; two businesses said they made a staff member redundant in order to afford increases to the wages of other staff, and manage the pressures of lower revenues which are occurring as a result of the current economic downturn. Businesses are currently questioning whether they will need to shut down in the near future as a result of changing business viability.
12. The Employment Rights Committee is sympathetic to this and intends to balance the issues of business affordability, the purchasing power of those on Minimum Wage, the impact on inflation, the gap between IRB and the Minimum Wage and other wider economic and social issues and therefore recommend from the 1 April that a smaller increase of 5p is implemented. *However, after discussion with SCDC, it was recommended that the increase of 8p is implemented.* This is smaller than both the rates consulted upon. Despite meaning a real decrease in wages, the amount is still greater than the £69.00 weekly Minimum Income Standard by £39.50. However, the smaller rate will help to maintain the affordability of existing jobs within the economy.

Recommendation:

13. From 1 April 2019, the Committee recommended that the hourly Minimum Wage should be set at:
- a) £3.10 per hour for all employees having attained the age of 18 years;
 - b) £2.15 per hour for all young people having attained the age of 16 and 17 years.

The Social and Community Development Committee received these recommendations and upon discussion of the issues, chose to recommend an increase with effect from 1 April 2019 to:

- a. *£3.13 per hour for all employees having attained the age of 18 years;*
- b. *£2.18 per hour for all young people having attained the age of 16 and 17 years.*

14. The Pay Reference Period, Determination of Hourly Rate, and Exclusions and Modifications as set out in the Employment Rights Ordinance should remain.

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15. After the increase recommended for 1 April 2019, the next increase in the Minimum Wage should be timed for 1 April 2020.
16. Since the previous recommendation report by the Employment rights Committee dated February 2018 the PAYE data collection now includes data on hours worked as well as income earned, in order to gain a better picture of those working at Minimum Wage. Data collection commenced April 2018 therefore hourly wage data should be available in 2019/20 financial year.
17. Since the previous recommendation report by the Employment rights Committee dated February 2018 the public were made aware of the process of challenging employers when they believe that they are being paid less than the Minimum Wage. This was made clear as part of the press release.

Nicole Shamier

Government Economist and Member of the Employment Rights Committee

[13 December 2019](#)

Annex A – Minimum Wage Impact Analysis

Price inflation

1. The recommended option would reduce the Minimum Wage in real terms.
2. Between Q3 2017 (the RPI used in calculating the previous Minimum Wage increase) and Q3 2018 (the latest date we have RPI data for at the time of going to consultation), overall prices on St Helena rose by **4.1%**¹. [*The inflationary increase was 2.8% considering purely the food element.*](#)
 - Raising the Minimum Wage in line with prices would mean increasing by 13p, setting a new level of **£3.18** (a 4.1% nominal increase, but 0% in real terms). This calculation is based on lagged inflation. Although the Minimum Wage was changed on 1 July 2018, the calculations used for the change was based on Q3 2017 which was the latest RPI which was available. Therefore instead of including the inflation change between 1 July 2018 and 1 April 2019 (which is unknown), inflation change between September 2017 and September 2018 is used.
 - [*Raising the Minimum Wage in line with food prices would mean increasing by 8p, setting a new level of £3.13.*](#)
 - The proposed rate of [*£3.13*](#) represents a [*8p*](#) increase; [*2.6%*](#) increase in nominal terms or [*-1.5%*](#) in real terms.

Comparison with IRB

3. One of the main purposes of a Minimum Wage is to ensure there is an incentive to work, expanding the labour supply and helping avoid people becoming trapped on benefits. So maintaining a gap between the Minimum Wage and IRB payment amount is important. IRB is currently £69.00 which is equivalent to £1.97 per hour for a 35 hour week. This has increased from £65.10 in August 2018 which was the equivalent of £1.86 per hour.
4. The table below demonstrates that IRB has increased by 43.27% since the introduction of the Minimum Wage in June 2013. This compares to an increase of the Minimum Wage of [*36%*](#) since inception (based on the recommended [*£3.13*](#) rate).
5. IRB has increased by £3.90 (the equivalent of 11p per hour) since the last time the Minimum Wage was updated.

Table 2: Change in Income-Related Benefits

	IRB	Equivalent p/h	Increase compared to June 2013
Jun-13	£48.16	£1.38	-
Oct-13	£51.64	£1.48	7.23%
Apr-15	£54.90	£1.57	14.00%
Apr-16	£59.60	£1.70	23.75%
Apr-17	£61.60	£1.76	27.91%
Dec-17	£65.10	£1.86	35.17%

¹ In Q3 2017, the RPI was 98.3, whilst in Q3 2018, the RPI was 102.4.

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Aug-18	£67.90	£1.94	40.99%
Nov-18	£69.00	£1.97	43.27%

6. In order to maintain the incentive to work and to stop the benefits trap increasing, the Minimum Wage would need to increase by £0.11 to **£3.16** per hour. Increasing to less than £3.16 would mean that benefits for those not working have risen more than the rate of pay for those on the Minimum Wage.
7. The recommended increase of Minimum Wage to [£3.13](#) in April 2019 would mean that the gap between IRB payments and the Minimum Wage is reduced. However, the Minimum Wage would be the equivalent of [£109.55](#) and therefore [£40.55](#) greater than the IRB. As the gap is still wide, there should not be a significant effect on the incentive to work.

Trends in Overall Income from Employment

8. Data on mean incomes from 2017-18 is neither currently complete nor audited. Therefore it is not possible to make a comparison with how the Minimum Wage increases compare to mean incomes between 2017-18 at this time.
9. Based on 2016-17 income data, the data which is most complete at the current time, there are likely to be around 50 people who will benefit from an increase in Minimum Wage. A study by Manning and Smith in 2015, suggested 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 in income; this is equivalent to around 570 St Helenians based on 2016-17 data.

Comparison of the Minimum Wage

10. Employees on the Minimum Wage of [£3.13](#) would receive an annual salary of [£5,696](#)² compared to the average gross employee income of £8,500 (2017/18) a difference of [£2,804](#). The Minimum Wage in St Helena would therefore be [67%](#) of the average gross employee income. Compared to the United Kingdom (UK) medium gross weekly earnings for full-time employment of £550 (2017), which equates to an annual salary of £28,600³. The Minimum Wage for the UK (2018) is £5.90, £7.38 and £7.83, 18 to 20, 21 to 24 and 25 and over respectively. This equates to an average annual salary of £11,351, £14199 and £15064 respectively. The Minimum Wage in the UK is 40% - 53% of the average gross employee income. The range of wages in St Helena is narrower than in the UK.

Impact on Employers

11. As the Minimum Wage has been rising, more businesses that we spoke to said that the change in Minimum Wage will affect them. A 13p increase (as consulted on) would have a significant effect, they tell us. This year, there was a preference to minimise the raise the Minimum Wage because of the impact that raising the Minimum Wage causes to their entire pay scale and the revenue issues that businesses are experiencing as a result of an economic downturn.

² Based on 35 hours per week worked in St Helena

³ Based on 37 hours per week worked in UK

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12. A 8p increase in the Minimum Wage is estimated to cost the SHG HR budget around £623 who it is assumed will increase wages for pay grade A1. If a 13p increase was chosen, it would be estimated to cost SHG around £2,330. If a 20p increase was chosen, it would be estimated to cost SHG around £5,324.
13. There would be further costs to SHG to pay for an increase in wages to home care workers who currently receive £3.09 per hour which is 4p above the current Minimum Wage. If the 4p differential was kept and the 8p increase was chosen, this would mean an increase in budget needed of £16,719. If 5p was chosen, the increase in budget would be £10,449. This is on top of a budget increase already needed as a result of the service being oversubscribed.
14. Overall, labour productivity in St Helena is low – to a great extent this is because low salaries encourage businesses to use more labour, rather than invest in plant and machinery. Increasing the Minimum Wage, while causing short-term difficulties, will have a positive effect in the long-term by providing a strong incentive for efficiencies and capital investment.
15. There is a balance to be struck between keeping costs low for businesses, 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 and the “Developing, maintaining and attracting a skilled workforce” goal under the Sustainable Economic Development Plan. By recommending a regular gradual increase in the Minimum Wage, a balance is provided between these competing issues.

Minimum Wage, Inflation and Unemployment

16. Prior to introduction 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, he felt that a Minimum Wage of £2.10 would be most supportive of economic growth, but accepted that it would heighten the risk of a poverty trap so suggested a rate of £2.20. With the Social Policy Adviser of the time arguing for £2.50, the result was a compromise at the rate of £2.30.
17. The Committee in 2015 reviewed the 2013 analysis and reflected on actual experience. In particular:
 - a. While it was estimated that a Minimum wage of £2.30 could cause inflation to increase by between 1.5% and 4.6%, it actually continued decreasing for a further three quarters before slowly increasing. The main reason was the depreciation of the South African Rand, which counteracted high inflation in South Africa.
 - b. St Helena continued to experience extremely low levels of unemployment. The Government Economist’s view was that, with the right financial and careers support in place, having a small amount of short-term/cyclical unemployment can be beneficial to economic growth as it alleviates recruitment difficulties for expanding businesses and reduces wage pressures, which have been significant in recent years.
 - c. In 2012/13, aggregate business profits grew by 14.8%, before growing by 16.4% in 2013/14. Where the 2013 economic analysis indicated that profits would be reduced by between £200,000 and £350,000, they actually increased by £475,000. Of course, profits may have been even higher in the absence of a Minimum Wage but, at the very least, a good balance appears to have been struck between the need for strong businesses and the needs of low-wage employees.

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- d. Overall, the Committee felt that the economic impact of the Minimum Wage was not as negative as feared, and was modest compared to the wage growth experienced by employers who have been competing in a buoyant labour market with significant recruitment difficulties.
18. Since then the following have been observed:
- a. The increase in the Minimum Wage in July 2015 from £2.30 to £2.60 also 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. The increase in the Minimum Wage in August 2017 from £2.60 to £2.95 also did not directly accelerate inflation above average levels 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.
 - c. The inflation after the increase in the Minimum Wage in July 2018 was 1.47% (2018 Q3 compared to 2018 Q2), which was higher than the 0.9% and 1.04% quarterly increases prior to the raise. The higher inflation levels could have been impacted by the increase in Minimum Wage, however there were a number of other pressures at the same time, namely increases in water prices and freight rates. There has been a general increase in the costs to business in 2018, and a contraction in the airport construction which has led to the anticipated downturn in the economy at this time. The unemployment rate (based on number of unemployment claimants) has increased from 16 in June 2018 to 35 in August 2018.
19. It is felt that the original Minimum Wage introduction had relatively little negative effect on many businesses, because most wages were being paid at higher market rates than the Minimum Wage benchmark. As the Minimum Wage has increased, particularly over the last two years, the benchmark is starting to force employers to increase their wages. This year there have been some increases to water costs and freight costs (although it is now possible to carry more in one container than was the case in the past) and there is little fiscal stimulus by the airport construction project coming to an end and no SHG capital programme, the economy is feeling a slight contraction, and this is putting a risk on the amount of revenues that businesses can collect. It is therefore likely that a larger increase to the Minimum Wage will affect the business viability of some operations on St Helena.

Competing with Overseas

20. Ascension and Falklands draw St Helenian workers away because of their comparably high wages and free accommodation packages. This leakage of talent is a problem because it makes it difficult for local businesses to find good recruits, and it means less PAYE tax is being paid which increases the burden on other tax payers.
21. In the Falklands, oil and gas exploration, a strong fishing sector (350,000 tonnes catch); meat and wool sales provide the Island's income which fuels good wages. From the 1st January 2018 the Minimum Wage increased to **£6.58** per hour and the Living Wage to £7.31 per hour. The Minimum Wage is 90% of the Living Wage. The Falklands Island Government may increase their Minimum Wage in 2019 however the rate is yet to be agreed.
22. In Ascension, income is generated largely through the US military service. There is no Minimum Wage or Living Wage. However, information provided by Ascension Island Government show salaries from £7,321 which represent non-skilled positions. This is the equivalent of **£3.75** per hour based on a normal 37.5 hour week on Ascension. Note, however, that included in AIG relocation packages are an annual food allowance (£2,969 or

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£5,936 based on single or accompanied status), free accommodation, shipping allowance, free return travel to residence, free medical and primary care and 30 days paid holiday leave.

23. The recommended increase of Minimum Wage to [£3.13](#) does not significantly address the issue of workers leaving for Ascension and Falklands to work. However the significantly large increase in salaries required to address the competition issue would not be affordable for businesses on St Helena at this time. The plan for St Helena to become more competitive as a place to work compared to the Falklands and Ascension will need to be addressed over a longer time horizon, and will be contingent on more new money coming into St Helena through increased exports including tourism. It is noted that 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.