

## EMPLOYMENT RIGHTS COMMITTEE

**St Helena Minimum Wage****Report of the Employment Rights Committee***4 December 2019*

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 has recommended a 5p increase to the Minimum Wage which would come into effect from 1 April 2020 if approved by Executive Council:
  - a. £3.18 per hour for all employees having attained the age of 18 years;
  - b. £2.23 per hour for all young people having attained the age of 16 and 17 years.

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**Membership of the Employment Rights Committee**

- Honourable Cruyff Buckley (Chairman)
- Mrs Nicole Shamier
- Miss Nicola Essex
- Miss Giselle Richards
- Miss Kerisha Francis

**Minimum Wage****The Hourly Rate of the Minimum Wage**

1. In July 2019, the Minimum Wage increased from £3.05 to £3.13 (for over 18s) and £2.10 to £2.18 (for 16-18 year olds). This year, the Committee considered three options: no increase, a 5p increase or a 9p increase. It is recommending a 5p increase to £3.18 per hour for employees 18 or older and £2.23 per hour for 16 and 17 year olds.
2. Previously, 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. 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

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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 2018 Q3 RPI), prices have inflated by 2.9% (between 2018 Q3 and 2019 Q3).
  - b. The IRB increased by 7p since the last Minimum Wage update. The 7p increase represented an overall 3.62% increase in IRB; if benefits increase more than wages, it is providing an incentive not to work.

**Table 1:** Benchmark increases

	Current MW	Pegged to Inflation	Pegged to IRB % increase	Pegged to IRB £ increase
Benchmark increase		2.90%	3.62%	2.28%
Equivalent MW	£3.13	£3.22	£3.24	£3.20

5. Lifting the current Minimum Wage rate of £3.13 (brought in on 1 April 2019) to £3.18 would represent a 5p increase respectively. By 1 April 2020, the Minimum Wage will have been in force for 82 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 5p would mean an increase of the Minimum Wage for 16-18 year olds from £2.18 to £2.23.

### 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 21 October to 18 November 2019. Because the drop in session during the 2017 Minimum Wage consultation was poorly attended, it was instead decided that email and phone call submissions were requested. There was 2 face to face submissions of feedback plus the Chamber of Commerce and ERC discussion including business representatives and 4 submissions by email.
  8. The Employment Rights Committee consulted on the following change to the Minimum Wage from 1 April 2020:
    1. An increase of 9p (2.9%) to £3.22 for persons over 18 This is a 0% real increase in the Minimum Wage as the increase is in line with inflation. The Minimum Wage for persons aged 16 or 17 would also increase by 9p to £2.27.
    2. An increase of 5p (1.6%) to £3.18 for persons over 18. This is a -1.3% real change in the Minimum Wage, after inflation is taken into account. The Minimum Wage for persons aged 16 or 17 would also increase by 5p to £2.23.
    3. No increase. This is a -2.9% real change in the Minimum Wage as there is no increase to keep in line with inflation.

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9. In previous consultations related to prior Minimum Wage updates the following responses were received:
- a. 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.
  - b. 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.
10. During this consultation, the following information was received:
- a. The owner of a cleaning company said, through verbal feedback, that any further increase in minimum wage would lead them to shut down business and leave the island.
  - b. The owner of a small retail business said, through the ERC forum, that an increase this year would encourage them to make one staff member redundant, and they would spend more time themselves working in the shop to compensate.
  - c. A member of the public said that 'Three options are provided which at best do nothing to allow the lowest earners to improve their quality of life. Future consultations should therefore include options where people who earn the minimum wage can progressively become better off in real terms. Providing options that at best provide a 0% increase in real terms or at worst -2.9% are all bad options for the lowest wage earners and the consultation could be perceived as a bogus box ticking exercise. I propose that there should be corresponding upwards increases to any downwards proposal in future consultations as it would appear that the current round of consultation is simply restricted to the three options stated. That will allow a proper consultation process and consider the option of actually making minimum wage earners better off whereas at the moment the consultation stifles this proposition and is therefore inherently unfair'.
  - d. Another member of the public, through verbal feedback, said that Minimum Wages were low and that they should be increased to counter inflation.
  - e. An owner of a medium sized business on St Helena fed back through email and said that they 'support the minimum wage for both over 18's and 16-17 year olds being increased in line with inflation'.
  - f. An owner of a small business on St Helena fed back through email and said that they 'would support a 5p per hour increase, and this reflects the view of several other businesses in the current economic climate'.

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- g. An owner of a large business on St Helena fed back through email and said that ‘with regard to the proposed we would be supportive of Option 3 – No increase and would recommend the shifting of focus instead to reducing the cost of living on the island through taking a serious approach to addressing factors such as freight costs which are a direct upward driver of rising cost of living in St Helena. Whilst we would certainly always be in favour of increasing income for individuals in principle, we are acutely aware that increasing the minimum wage in reality only serves to fuel inflation, as businesses then need to increase costs to cover the increased salaries. Whilst we accept that the number of individuals who may be due to an increased wage if the minimum wage is increased are restricted to a portion of the workforce only, the ripple effect of increasing wages on minimum levels will result in all layers of the wage structure being increased to maintain job family structures and to ensure equal pay for equal work. Consequently, we would advise that affordability will be an issue in respect of any increase, in the current economic climate and increased salary/wage costs will need to be passed on to the consumer, through the knock-on effect of increasing prices of commodities and services, effectively eroding the increase for individuals and defeating the purpose of the increase in any case. The Company recently made a submission in relation to the Labour Market Strategy during its consultation phase and we would strongly reiterate the importance of addressing the factors which are directly and disproportionately affecting the cost of living as a more direct way to improve the cost of living on St Helena, as opposed to focusing on increasing the minimum wage which of itself, will not deliver the benefit to those for whom it is likely intended to assist. We hope the above is of some assistance and appreciate the opportunity to feed into this consultation phase.’

11. In a separate consultation on the Labour Market Strategy, many people indicated that they believed wages should increase to reflect increase in the cost of living.
12. The representations were extremely broad. After consideration of the consultation responses, members of the Employment Rights Committee presented all three options to the Social and Community Development Committee for discussion. In this discussion, opinions were equally divided between those who felt that the potential impacts to businesses were the most important consideration and others who felt the role of the minimum wage was to provide protections to employees and should be increased.

**Recommendation:**

13. Based on the input from consultations and the Social and Community Development Committee, the Employment Rights Committee recommended a 5p increase to the Minimum Wage which would come into effect from 1 April 2020 if approved by Executive Council:
  - a. £3.18 per hour for all employees having attained the age of 18 years;
  - b. £2.23 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.
15. After the increase recommended for 1 April 2020, the next increase in the Minimum Wage should be timed for 1 April 2021.
16. It is also recommended that the changes to maternity, paternity and adoption pay already agreed by the Social and Community Development Committee on 12 December 2018 should be included within the draft legislation update if approved by Executive Council alongside the Minimum Wage update.

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**Nicole Shamier**

*Chief Government Economist and Member of the Employment Rights Committee*

4 December 2019

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**Annex A – Minimum Wage Impact Analysis***Price inflation*

1. The recommended option would represent a decrease in the Minimum Wage rate in real terms as a result of applying the inflationary increase.
2. Between Q3 2018 (the RPI used in calculating the previous Minimum Wage increase) and Q3 2019 (the latest date we have RPI data for at the time of going to consultation), overall prices on St Helena rose by **2.9%<sup>1</sup> whilst the food element of inflation rose by 4%**.
  - Raising the Minimum Wage in line with prices would mean increasing by 9p, setting a new level of **£3.22** (a 2.9% nominal increase, but 0% in real terms). This calculation is based on lagged inflation. Although the Minimum Wage was changed on 1 April 2019, the calculations used for the change was based on Q3 2018 which was the latest RPI which was available. Therefore instead of including the inflation change between 1 April 2019 and 1 April 2020 (which is unknown), inflation change between September 2018 and September 2019 is used.
  - Raising the Minimum Wage in line with food prices would mean increasing by 4%, therefore increasing by 13p, setting a new level of **£3.26**.
  - The proposed rate of £3.18 represents a 5p increase; 1.6% increase in nominal terms or -1.3% 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 £71.50 which is equivalent to £2.04 per hour for a 35 hour week. This has increased from £69.00 in November 2018 which was the equivalent of £1.97 per hour.
4. The table below demonstrates that IRB has increased by 48.46% since the introduction of the Minimum Wage in June 2013. This compares to an increase of the Minimum Wage of 38% since inception (based on the £3.18 rate).
5. IRB has increased by £2.50 (the equivalent of 7p 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%

<sup>1</sup> In Q4 2018, the RPI was 102.4, whilst in Q3 2019, the RPI was 105.3.

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Dec-17	£65.10	£1.86	35.17%
Aug-18	£67.90	£1.94	40.99%
Nov-18	£69.00	£1.97	43.27%
Mar-19	£70.00	£2.00	45.35%
Oct-19	£71.50	£2.04	48.46%

6. In order to maintain the incentive to work and to stop the benefits trap increasing, the Minimum Wage would need to increase by £0.07 to **£3.20** per hour. Increasing to less than £3.20 would mean that benefits for those not working have risen more than the rate of pay for those on the Minimum Wage.
7. If the Minimum Wage increases by 7p or more in April 2020 would mean that the gap between IRB payments and the Minimum Wage is increased. The only one of the three options presented that would not reduce the gap between the Minimum Wage and IRB would be a 9p increase, in this case the Minimum Wage would be the equivalent of £112.70 per week and therefore £41.20 greater than the IRB.

*Trends in Overall Income from Employment*

8. Data on mean incomes from 2018-19 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 2017-18 income data, the data which is most complete at the current time, there are likely to be around 232 people who will benefit from a 5p increase. 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 5<sup>th</sup> percentile by 2.9%, bottom 10<sup>th</sup> percentile by 1.6%, and bottom 20<sup>th</sup> percentile by 0.7% of the rate of Minimum Wage change. Should this be the case, the bottom 20<sup>th</sup> percentile of earners could see some increase in income; this is equivalent to around 1,277 St Helenians based on 2017-18 data<sup>2</sup>.

*Comparison of the Minimum Wage*

10. Should there be no change in the Minimum Wage in April 2020, employees receiving £3.13 per hour receive an annual salary of £5,697<sup>3</sup> compared to the average gross employee income of £8,500 (2017/18) a difference of £2,803. The Minimum Wage in St Helena would therefore be 67% of the average gross employee income.
11. Should there be a 5p increase in the Minimum Wage in April 2020, employees receiving £3.18 per hour receive an annual salary of £5,788<sup>4</sup> compared to the average gross employee income of £8,500 (2017/18) a difference of £2,712. The Minimum Wage in St Helena would therefore be 68% of the average gross employee income.
12. Compared to the United Kingdom (UK) medium gross weekly earnings for full-time employment of £550 (2017), which equates to an annual salary of £28,600<sup>5</sup>. The Minimum Wage for the UK (2018) is £5.90, £7.38 and £7.83,

<sup>2</sup> Note that this number includes part time workers. It is unclear, due to lack of evidence of numbers of hours worked, whether all people with incomes lower than Minimum Wage on 35 hour equivalents, will benefit.

<sup>3</sup> Based on 35 hours per week worked in St Helena

<sup>4</sup> Based on 35 hours per week worked in St Helena

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18 to 20, 21 to 24 and 25 and over respectively. This equates to an average annual salary of £11,351, £14,199 and £15,064 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*

13. As the Minimum Wage has been rising, more businesses that we spoke to said that the change in Minimum Wage will affect them. A 9p increase (as consulted on) would have an effect, some told us, as alongside other changes in prices, for example freight prices, the pressure on businesses in 2019 is inflationary. This year, the Employment Rights Committee held 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.
14. A 5p increase in the Minimum Wage is estimated to cost the SHG HR budget around £1,401 per annum who it is assumed will increase wages for pay grade A1.
15. There would be further costs to SHG to pay for an increase in wages to home care workers who currently receive 4p above the current Minimum Wage. If the 4p differential was kept, a 5p increase would lead to a £10,449 increase in the budget.<sup>6</sup>
16. 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.
17. 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*

18. 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.
19. The Committee in 2015 reviewed the 2013 analysis and reflected on actual experience. In particular:

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<sup>5</sup> Based on 37 hours per week worked in UK

<sup>6</sup> Confirmation is expected from Children and Adult Safeguarding as to what action they would intend to take as a result of any Minimum Wage changes.



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- 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.
  - 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.
20. 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 allowance claimants) increased from 16 in June 2018 to 35 in August 2018.
  - d. The inflation after the increase in the Minimum Wage in April 2019 was 0.7% (2019 Q2 compared to 2019 Q1), which was higher than the 0.5% raise in the quarter prior, lower than the 1.2% raise in the quarter two prior and higher than the 0.4% raise in the quarter after. The downturn after the end of airport construction still exists in the economy and the employment rate (based on number of unemployment allowance claimants) increased from 22 in March 2019 to 36 in April 2019.
21. 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 the economy continues to feel a contraction, and this is putting a risk on the

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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.

22. Two strong representations that we have seen is:
- a. There is a direct impact between an increase in minimum wage and childcare costs
  - b. There are other inflationary pressures on retailers such as potential freight price increases resulting from increases in low-sulphur fuel prices as a result of the IMO2020 environmental legislation on shipping fuel which comes into force January 2020.
23. Other government initiatives could be utilised to manage these issues going forward, such as a review of grants, subsidies including ideas such as child benefit allowances, subject to budgets.

*Competing with Overseas*

24. 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.
25. 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. The MW rate for 2019 is £6.67 per hour. The Falklands Island Government may increase their Minimum Wage in 2020 however the rate is yet to be agreed.
26. 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 £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<sup>7</sup>.
27. The recommended Minimum Wage options do 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.

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<sup>7</sup> Data correct as of 2018