

St Helena Minimum Wage

Report of the Employment Rights Committee

Draft for Education & Employment Committee Endorsement – 5 March 2021

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

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

Decision Points

- The Committee adopted the view that the Minimum Wage should be increased on 1 July 2021.
 - The Committee recommends that the Minimum Wage should be increased with effect from 1 July 2021 to:
 - £3.25 per hour for all employees having attained the age of 18 years;
 - £2.30 per hour for all young people having attained the age of 16 and 17 years.
 - The Committee recommends adopting a Minimum Wage Policy setting out the principles for a longer-term path to a more ambitious Minimum Wage that will benefit workers and provide adequate time for businesses to plan and adapt.
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Membership of the Employment Rights Committee

- Honourable Russell Yon (Chairperson)
- Miss Andrea Mittens (Secretary)
- Mrs Amanda Curry Brown
- Miss Nicola Essex
- Miss Lindsay Shankland
- Mrs Helene Williams

Minimum Wage

The Hourly Rate of the Minimum Wage

1. In April 2020, the Minimum Wage increased from £3.13 to £3.18 (for over 18s) and £2.18 to £2.23 (for 16-18 year olds). The Committee now recommends an increase from £3.18 to £3.25 and from £2.23 to £2.30 respectively.
2. There are a number of upward pressures on the Minimum Wage.
 - a. Since the Minimum Wage calculation was undertaken for 2020 (using 2019 Q3 RPI), prices have inflated by 1.0% (between 2019 Q3 and 2020 Q3). In 2020, the Minimum Wage was increased at a rate less than inflation (1.6% increase vs. 2.9% inflation) so Minimum Wage earners saw a decrease in earnings in real terms.

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- b. The Income Related Benefits (IRB) increased by the equivalent of 4p per hour since the last Minimum Wage update. The 4p increase represented an overall 2.1% increase in IRB between 2019 and 2020; if benefits increase more than wages, it reduces the incentive to work.

Table 1: Benchmark increases

	Current MW	Suggested MW by ERC	Inflation since last update	IRB increase since last update %	IRB increase since last update £
Benchmark increase	-	2.0%	1.0%	2.1%	1.3%
Equivalent MW	£3.18	£3.25	£3.21	£3.25	£3.22

3. Lifting the current Minimum Wage rate of £3.18 (brought in on 1 April 2020) to £3.25 would represent a 7p increase. By 1 July 2021, the Minimum Wage will have been in force for 98 months (having been introduced on 1 June 2013), and will have increased by 41% since the Minimum Wage started.
4. Typically, the Minimum Wage for under 18s increases by the same £ amount. Therefore an increase of 7p on the Minimum Wage would mean an increase of the Minimum Wage for 16-18 year olds from £2.23 to £2.30.

Proposed Minimum Wage Policy

5. 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 consistent with the ‘Altogether Wealthier’ goal under the 10 Year Plan, the ‘Developing, maintaining and attracting a skilled workforce’ goal under the Sustainable Economic Development Plan and creating ‘a labour market that rewards hard work and incentivises aspiration’ under the Labour Market Strategy.
6. In 2020, an exercise was undertaken to review and update the basket of goods and services considered when valuing the Minimum Income Standard (MIS). This exercise was based on international-standard methodologies that consider the MIS as a socially acceptable minimum level of income rather than as a poverty line associated with receipt of benefits. The initial outcome of this work indicates that the MIS is higher than the current Minimum Wage.
7. This fact, and other issues related to the level of wages on St Helena, means that more ambitious increases to the Minimum Wage are needed to ensure that the lowest paying full-time job on St Helena is sufficient to achieve a socially acceptable standard of living.
8. In 2017, the Employment Rights Committee recommended that the Minimum Wage should be increased on an annual basis. This was based upon feedback during the previous two consultations from where businesses stated a preference for the Minimum Wage to go up annually (and gradually) rather than wait for two years and go up by a large increase. However, there is a limit to the size of wage increase a business can absorb when changes are announced on an annual basis, particularly at this time of uncertainty caused by COVID-19.

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9. For this reason, the Employment Rights Committee proposed a new Minimum Wage Policy that sets a longer-term path to a more ambitious Minimum Wage, benefitting workers and providing adequate time for businesses to plan and adapt.

Consultation Undertaken

10. Section 9 of the Employment Rights Ordinance requires the Employment Rights Committee to consult:
 - Such organisations representative of employers as they think fit;
 - Such organisations representative of employees as they think fit; and
 - If they think fit, any other body or person.
11. A consultation was undertaken from 18 January to 26 February 2020, led by the Chair of the Employment Rights Committee, Chair of the Education and Employment Committee and Senior Economist. The consultation sought feedback on 1) an increase of 7p per hour to the Minimum Wage and 2) a proposed Minimum Wage Policy setting out the principles for a longer-term path to a more ambitious Minimum Wage that will benefit workers and provide adequate time for businesses to plan and adapt.
12. During the consultation period, the following public meetings were held:
 - Harford Community Centre – 7 members of the public, 1 Elected Member
 - Chamber of Commerce – 15 members of the Chamber of Commerce, 1 Elected Member
 - Kingshurst Community Centre – 3 members of the public
 - Jamestown Museum – 3 members of the public, 1 member of Employment Rights Committee
 - Jamestown Market Drop-In – 2 members of the public
 - SHG Employee Representative Committee – 18 members of the SHG Employee Representative Committee
13. In addition, the public was invited to give feedback via email, written submission, phone or individual meeting. One written submission was received from a large employer.

Feedback Received

14. In general, there was broad agreement that the current Minimum Wage is too low, not adequate to provide a decent standard of living and not sufficient to help working families move off of benefits. While a 7p per hour increase was considered far too low to address these concerns, there was recognition that current economic circumstances limit the size of increase possible at this time.
15. Even in light of current economic conditions, most employers reported that the 7p per hour increase would not present a significant burden for their business. The one exception was the owners of a crèche who expressed concern about the potential impact to their customers. Because near-Minimum Wage labour costs make up a significant portion of their operating expenses, any increase gets passed along to customers. If prices increase too much, more parents will choose to leave children with family members (or not work themselves) which impacts the crèche and its ability to maintain current staffing levels.
16. The majority of feedback received on the proposed Minimum Wage Policy was either positive or neutral. While there were concerns expressed about the sustainability of increased Minimum Wages, particularly given the uncertainty associated with COVID-19, a number of business owners supported the proposed approach.

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17. One large employer noted that the assumption that wages make up a relatively small portion of operating costs for most businesses (based on responses to the 2019 Business Survey) may not be accurate. It is recommended that this be revisited in consultations with business regarding future changes to the Minimum Wage.
18. A minority of individuals expressed scepticism that increased wages would improve quality of life. Most of these views were based on the assumption that prices would increase faster than wages regardless of how much wages increased. Some of these individuals felt that the negative impacts associated with increasing wages would off-set any benefit.
19. The following policy issues were identified that will need to be taken into account when setting a target Minimum Wage and schedule for achieving that target:
 - Whether the tax threshold (currently £7,000) should be changed to ensure people are benefitting from increased income;
 - What the effect of Minimum Wage increases will be for individuals in positions currently making more than the Minimum Wage;
 - How to ensure increased childcare costs do not adversely affect working families;
 - How to ensure affordable housing is available for working families;
 - How IRB will be set relative to the Minimum Wage and
 - What the timing will be for resumption of commercial air travel and global control of COVID-19.
20. The feedback received was extremely consistent with responses to previous consultations on the Minimum Wage and other policies. The following responses were received in previous consultations and should continue to inform consideration of increase to the Minimum Wage:
 - During consultations for both the Labour Market Strategy (2019) and Immigration Policy (2020), there was an overwhelming majority view that wages on-Island are too low.
 - In 2018, a crèche owner reported that 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.
 - Other feedback from business in 2018 was that the Minimum Wage increase earlier that year 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 economic downturn at the time.

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Recommendations:

21. From 1 July 2021, the Employment Rights Committee recommends that the hourly Minimum Wage should be set at:
 - a) £3.25 per hour for all employees having attained the age of 18 years;
 - b) £2.30 per hour for all young people having attained the age of 16 and 17 years.
22. The Pay Reference Period, Determination of Hourly Rate, and Exclusions and Modifications as set out in the Employment Rights Ordinance should remain.
23. Following approval of the proposed Minimum Wage Policy, the Employment Rights Committee recommends undertaking on consultation on a target Minimum Wage and options for achieving this target over a period of time, ideally 3-7 years. As part of the process, the Employment Rights Committee should engage with the Education & Employment Committee and other relevant committees to ensure a unified approach to addressing the issues identified in paragraph 19.
24. A timetable for achieving the target Minimum Wage should be approved and published by the end of December 2021, to commence implementation from 1 April 2022.
25. The target Minimum Wage and associated timetable should be reviewed annually in light of current economic conditions and, in particular, the schedule for resumption of regular commercial air service. Any changes from the originally published target or schedule should be subject to public consultation.

Amanda Curry Brown

Senior Economist and Member of the Employment Rights Committee

5 March 2021

Annex A – Minimum Wage Impact Analysis

Price inflation

1. The annual rate of inflation as of the third quarter of each calendar year is typically used to inform changes to the Minimum Wage in the following calendar year. This lag is because the Q3 data is typically the latest available to inform an increase that is finalised by 31 December in order to take effect 1 April. While the increase was delayed by one quarter in 2021, Q3 data was used to ensure comparability from year to year.
2. Between Q3 2019 (the RPI used in calculating the previous Minimum Wage increase) and Q3 2020, overall prices on St Helena rose by **1.0%**.¹ Raising the Minimum Wage in line with prices would mean increasing by **3p**, setting a new level of **£3.21**.
3. In 2019, the Minimum Wage was increased at less than the rate of inflation (1.6% increase vs. 2.9% inflation).
 - The proposed rate of **£3.25** represents a **7p** increase. This increase reflects the increment required to implement a full inflationary increase in 2020 (4p) plus an inflationary increase in 2021 (3p).

Comparison with IRB

4. One of the purposes of a Minimum Wage is to ensure there is an incentive to work, expand the labour supply and help avoid people becoming trapped on benefits. For this reason, maintaining a gap between the Minimum Wage and IRB payment amount is important. IRB is currently £73.00 which is equivalent to approximately £2.08 per hour for a 35 hour week. This has increased from £71.50 in November 2019 which was the equivalent of approximately £2.04 per hour.
5. The table below demonstrates that IRB has increased by 51.58% since the introduction of the Minimum Wage in June 2013. This compares to an increase of the Minimum Wage of 41% since inception (based on the recommended £3.25 rate).
6. IRB has increased by **£1.50** (the equivalent of **4p** per hour) since the last time the Minimum Wage was updated.

¹ <https://www.sainthelena.gov.sh/wp-content/uploads/2020/10/Stats-Bulletin-9-2020-Prices.pdf>

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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%
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%
Oct-20	£73.00	£2.08	51.58%

7. In order to maintain the incentive to work and to stop the benefits trap increasing, the Minimum Wage would need to increase at the same rate as benefits (**2.1%** or **£0.07** per hour) to **£3.25** per hour. Increasing to less than £3.25 would mean that benefits for those not working have risen faster than the rate of pay for those on the Minimum Wage.
8. The recommended increase of Minimum Wage to **£3.25** in July would mean that IRB payments and the Minimum Wage have increased at the same rate from the previous year. The Minimum Wage would be the equivalent of **£113.75 per week** and therefore **£40.75** greater than the IRB. There should not be a significant impact on the incentive to work.

Trends in Overall Income from Employment

9. Data on mean incomes from FY 2019/20 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 from FY 2019/20 at this time.
10. Available income data does not include hourly wage or number of hours worked. For this reason, it is difficult to determine how many individuals are paid at the Minimum Wage. In addition, many employers report paying just slightly above the Minimum Wage in order to attract quality employees. A study by Manning and Smith in 2015 suggested that an increase in the Minimum Wage is also likely to increase wages to some degree for workers in the bottom 20th percentile of earners. This is equivalent to around 300 St Helenians based on FY 2018/19 data.

Comparison of the Minimum Wage to UK

11. Employees on the Minimum Wage of **£3.25** would receive an annual salary of **£5,915²** compared to the average gross employee income of **£8,410** (FY 2018/19) a difference of **£2,495**. The Minimum Wage in St Helena would therefore be **70%** of the average gross employee income. Compared to the United

² Based on 35 hours per week worked in St Helena

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Kingdom (UK) average weekly earnings for full-time employment of £571 (2020), which equates to an hourly rate of £16.31 or an annual salary of £29,700.³ The Minimum Wage for the UK (2021) is £4.55 (under 18), £6.45 (18 – 20), £8.20 (21 – 24) and £8.72 (25+).⁴ This equates to an average annual salary of £8,281 - £15,900. The Minimum Wage in the UK is 28% - 53% of the average gross employee income. The range of wages in St Helena is narrower than in the UK.

Impact on Employers

12. As the Minimum Wage increases, more businesses will be impacted. This year, there was a preference to minimise the increase to 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 the impacts of COVID-19 on international travel.
13. A 7p increase in the Minimum Wage is not estimated to impact the SHG HR budget because all employees currently make more than £3.25 per hour.
14. Overall, labour productivity (i.e., the output produced per hour of work) in St Helena is low – to a great extent this is because low salaries encourage businesses to use more labour, rather than invest in technology 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 consistent with the ‘Altogether Wealthier’ goal under the 10 Year Plan, the ‘Developing, maintaining and attracting a skilled workforce’ goal under the Sustainable Economic Development Plan and creating ‘a labour market that rewards hard work and incentivises aspiration’ under the Labour Market Strategy. Implementing regular, gradual increases to the Minimum Wage and announcing these increases in advance will help to balance these competing needs.

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:
 - 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.

³ <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours>

⁴ <https://www.gov.uk/national-minimum-wage-rates>

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- 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.
- In FY 2012/13, aggregate business profits grew by 14.8%, before growing by 16.4% in FY 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.
- 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:

- 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.
- 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.
- 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 was a general increase in the costs to business in 2018, and a contraction following the airport construction which led to an anticipated downturn in the economy. The number of unemployment claimants increased from 16 in June 2018 to 35 in August 2018.
- The annual inflation rate has been decreasing steadily since Q1 of 2019. Increases did not occur following the increase to the Minimum Wage in either April 2019 or April 2020. Unemployment tends to follow a seasonal pattern in which it decreases in the summer (peak visitor) months and increases at other times of the year. While there was generally increased unemployment during periods in 2019 and 2020, this cannot be tied directly to changes in the Minimum Wage and is more likely the result of other macroeconomic factors (e.g., the lack of a capital programme and global impacts of COVID-19).

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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. Additional increases will need to be considered carefully, especially in light of the impacts of COVID-19, in order to avoid detrimental impacts to the private sector.

Competing with Overseas

20. Ascension and the Falkland Islands draw St Helenian workers away because of their comparably high wages and benefit 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 July 2020 the Minimum Wage increased to **£7.13** per hour.
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 £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. Most workers employed on contracts with the U.S. government would be eligible to be paid at least the U.S. Federal Minimum Wage of **\$7.25** per hour (approximately **£5.20**).
23. Conversely, the Minimum Wage in South Africa is significantly lower than on St Helena. The Minimum Wage was initially set at 20 rand per hour (approximately £0.95) in 2019 and increased to **21.69** rand (approximately **£1.04**) on 1 March 2021.
24. The recommended increase of Minimum Wage to **£3.25** 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. The Minimum Wage Policy recommended by the Employment Rights Committee sets out the principles for a longer-term path to a more ambitious Minimum Wage that will benefit workers and provide adequate time for businesses to plan and adapt.