

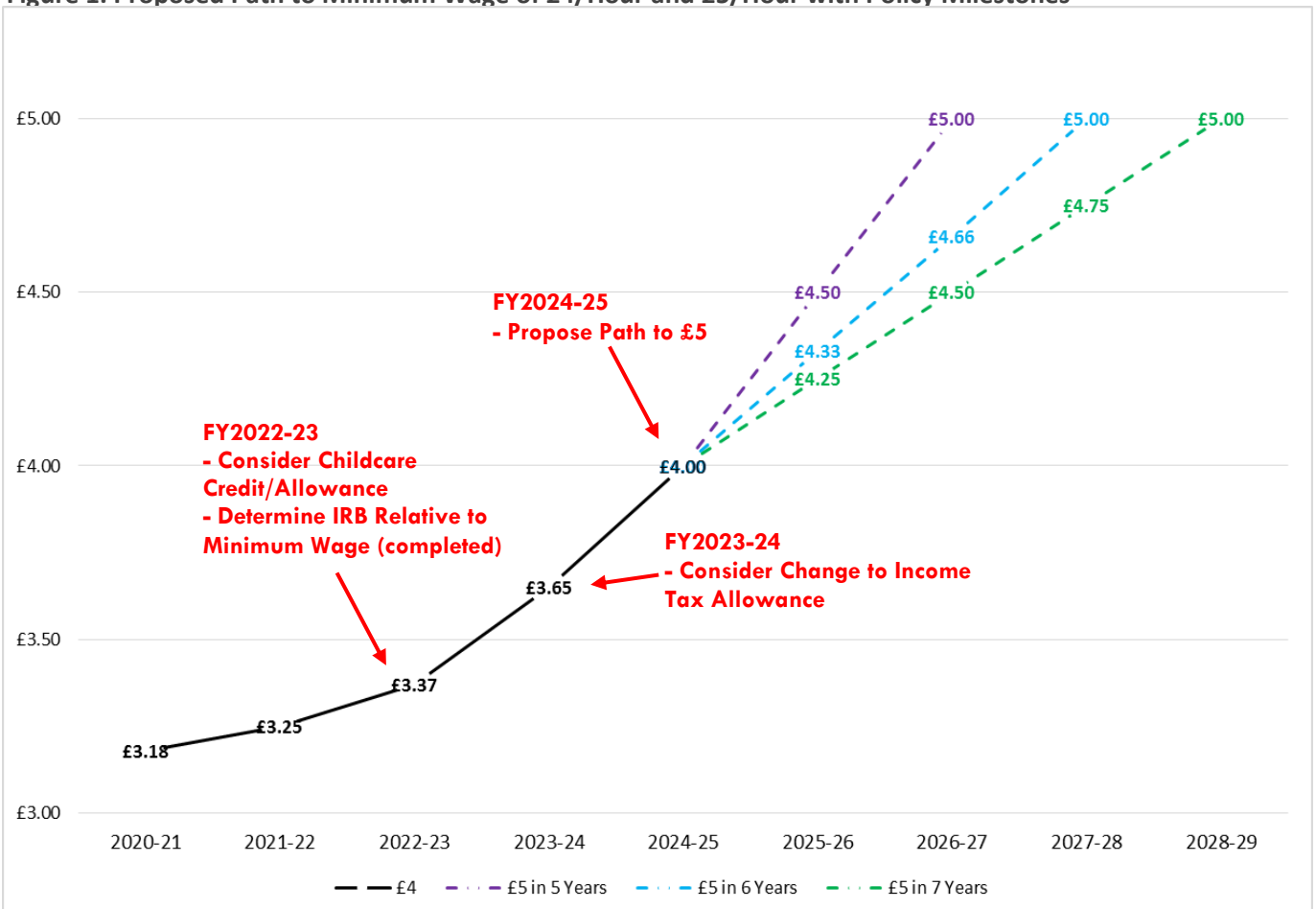
Proposed Target Minimum Wage and Implementation Schedule

In 2020, SHG undertook an exercise 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 establish the MIS as a socially acceptable minimum level of income rather than as a poverty line associated with receipt of benefits. The new basket was based on input from a working group of St Helenians and reflects both the wider range of goods and services available on St Helena since 2013 and changing expectations for what constitutes an acceptable standard of living. **A range of scenarios were considered with different family sizes, housing and transportation resulting in a MIS that ranged from £3.50 - £4.90 per hour for a working adult.**

In March 2021, Executive Council approved a Minimum Wage Policy based on the principle that the compensation for the lowest paying full-time job on St Helena should be sufficient to support a socially acceptable standard of living. At the same time, the Minimum Wage Policy recognised that there is a limit to the size of increase that businesses can absorb in a single year. **The Policy set out SHG’s intention to establish a longer-term path to a more ambitious Minimum Wage, benefitting workers and providing adequate time for businesses to plan and adapt.**

Based on the 2020 MIS and assumptions about inflation, a target Minimum Wage of £4 - £5 for persons 18 and older implemented over 3 - 7 years is consistent with the approved Minimum Wage Policy. This assumes 3.4% annual inflation through FY 2024/25 and would be a 23 – 54% increase from the current Minimum Wage of £3.25. Figure 1 shows the proposed schedule for achieving this target along with the policy milestones recommended to support implementation. Table 1 shows the hourly increase that would be required each year to reach £4/hour under this option and the equivalent hourly, weekly and annual wage.

Figure 1. Proposed Path to Minimum Wage of £4/Hour and £5/Hour with Policy Milestones



For FY 2022 – 23, a £0.12 per hour increase is recommended. The largest annual increase proposed in the first three years – £0.35 per hour in FY 2024/25 – is equivalent to the previous highest increase implemented. The Minimum Wage for 16-17 year olds will be increased at the same rate as the 18+ Minimum Wage.

Table 1. Proposed Annual Increases and Equivalent Hourly, Weekly and Annual Minimum Wage

FY	Proposed Hourly Increase	Hourly Minimum Wage (18+)	Weekly Minimum Wage (35 hours)	Annual Minimum Wage (52 weeks)	Hourly Minimum Wage (16-17)
2021/22	-	£3.25	£113.75	£5,915	£2.30
2022/23	£0.12	£3.37	£117.95	£6,133	£2.42
2023/24	£0.28	£3.65	£127.75	£6,643	£2.70
2024/25	£0.35	£4.00	£140.00	£7,280	£3.05

Potential Impacts

As a first step to proposing a target Minimum Wage and implementation schedule, SHG sought feedback from employers as to the potential impacts of the proposed option. Between May and September 2021, six employers responded with specific information about how the proposed increases would affect them and one other provided general comments. These organisations represent a range of sizes and employ at least 57%¹ of all wage-earners on-Island. All but one currently have staff earning less than £3.37 per hour.

None of the responding employers indicated that they would reduce staff through redundancies and a majority intended to reduce costs over time through a combination of technology and process improvements. This would have the effect of eliminating lower-skilled jobs and reducing staffing needs, which respondents felt could be achieved through the natural rate of turnover. This is consistent with UK and international literature which suggests that the Minimum Wage does not have a significant negative effect on employment.²

In previous consultations, there has been concern that businesses will raise prices to cover increased wage costs, offsetting any benefit from increased earnings for workers. **While there are likely to be some price increases, particularly in labour-intensive businesses, international studies regarding the impacts of Minimum Wage generally suggest that these would be modest compared to the change in the Minimum Wage.** For example, one paper estimated that a 10 percent increase in the Minimum Wage would increase food prices by no more than 4 percent and overall prices by no more than 0.4 percent.³ While it is difficult to draw broad conclusions from the data received, the responses from local employers are consistent with this finding, with only two indicating that they would increase prices in response to the proposed increases in the Minimum Wage. Further, previous assessments have concluded that changes to the Minimum Wage had minimal, if any, impact on local inflation which is driven by factors such as global inflation or exchange rates.

There are several factors that would lead prices to increase more slowly than wages. As above, not every employer will increase prices in response to increased wage costs. Some employers will seek to reduce costs through the use of technology or process improvements so the full cost of increased wages would not need

¹ 1,324 employees compared to 2,327 individuals who reported being economically active but not self-employed in the 2021 Census. One employer did not specify how many individuals they employ.

² Dube, Arindrajit. *Impacts of Minimum Wages: Review of the International Evidence*. November 2019. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/844350/impacts_of_minimum_wages_review_of_the_international_evidence_Arindrajit_Dube_web.pdf.

³ Lemos, Sara. *The Effect of the Minimum Wage on Prices*. March 2004. Available at SSRN: <https://ssrn.com/abstract=524803>.

to be passed along to customers. Where costs are passed along to customers, these would be spread across a full line of products and/or services offered so no single customer or group is significantly affected.

In addition, increasing the disposable income – that is, the income available for non-essential purchases – for low-wage households has a positive impact for the local economy. Low-income households tend to have a higher ‘propensity to consume’ than high-income households.⁴ In other words, additional income earned by these households is more likely to be spent than saved. This means that increasing disposable income for more individuals would benefit businesses by increasing their customer base.

Responding employers said they would consider implementing wage increases to some or all staff earning above the Minimum Wage if possible, but the approach for this varied widely and would obviously depend on a range of factors affecting profitability. In past consultations, there have been concerns that increasing the Minimum Wage would ‘devalue’ higher skilled jobs by decreasing the pay differential between roles. Similarly, many employers have previously reported paying slightly more than the Minimum Wage because they do not consider the work offered to be ‘minimum wage work.’ **However, actions that replace lower-skilled jobs with higher-skilled ones will ultimately change the definition of what is considered ‘minimum wage work’.** Following introduction of the Minimum Wage in the U.S., the reduction in the number of low-skilled, low-paid jobs available caused students to stay in school longer in order to increase their qualifications. Further, the use of technology in place of low-paid labour created new higher-skilled jobs.⁵ While the gap in pay between the lowest paid positions and others decreased, the gap in skills required for these positions also decreased.

Complementary Policies

When the Minimum Wage Policy was approved, it was agreed there were a number of complementary policies that would need to be considered to facilitate future increases. In May 2021, the Social and Community Development Committee agreed to set the rate of Income Related Benefits at 61.22% of the Minimum Wage rate. This would help to ensure the Minimum Wage remains above the IRB at a level that provides sufficient incentive to work compared to the rate of benefits.

Previous consultations have shown that costs of child care are impacted by increases in the Minimum Wage because service costs are linked very closely to the rate of Minimum Wage. It has been previously suggested that these impacts be dealt with through other policy measures, such as the introduction of a childcare tax credit or allowance. In addition, increasing the tax threshold (currently £7,000) may be necessary in the future to ensure more people fully benefit from increased income.

Next Steps

The Employment Rights Committee (ERC) is seeking feedback from employers and other members of the public on the proposed target Minimum Wage and implementation schedule. This can be provided via email to ERC Secretary Andrea Mittens (Andrea.Mittens@sainthelena.gov.sh) or by making an appointment via 22470. Written feedback can also be delivered to the Castle. The consultation will close on 4 March 2022.

From late 2022, the ERC will meet annually to review relevant data from the preceding 12 months and either confirm that the planned update will occur as scheduled on 1 April of the following year or determine that adjustments are required. Consultations will occur only if there is a change from the previously approved plan. In 2024, a path will be proposed to reach a Minimum Wage of £5 per hour (or another target agreed at that time) based on information gathered on implementation of previous increases as well as current and projected economic conditions.

⁴ <https://www.britannica.com/topic/propensity-to-consume>

⁵ Sutch, Richard. “The Unexpected Long-run Impact of the Minimum Wage: An Educational Cascade.” 2010. *National Bureau of Economic Research Working Paper 16355*: <http://www.nber.org/papers/w16355>.