



Isle of Man Chamber of Commerce

Friday 3rd March 2023

Dear Chief Minister, Minister Allinson, Minister Johnstone

LIVING WAGE TRANSITION

Chamber would like to draw attention to the growing level of concern from businesses in multiple sectors about the government's current policy of transitioning to living wage by April 2025. A policy adopted before the current cost of living crisis, Ukraine war and energy and food shortages. Whilst we have always supported the intent and direction of travel of the policy, evidence is emerging that shows it could pose a serious risk to a number of sectors in the economy, in particular retail and wholesale distribution and services, hospitality, visit, child care, caring professions and small businesses without scale and depending on level in 2025 even the Construction and Manufacturing sectors are baulking at anything beginning with £13 – so at least 50% of the economically active workforce

As a member lead organisation, when hundreds of members share concern we must speak out.

Evolution of Living Wage to date

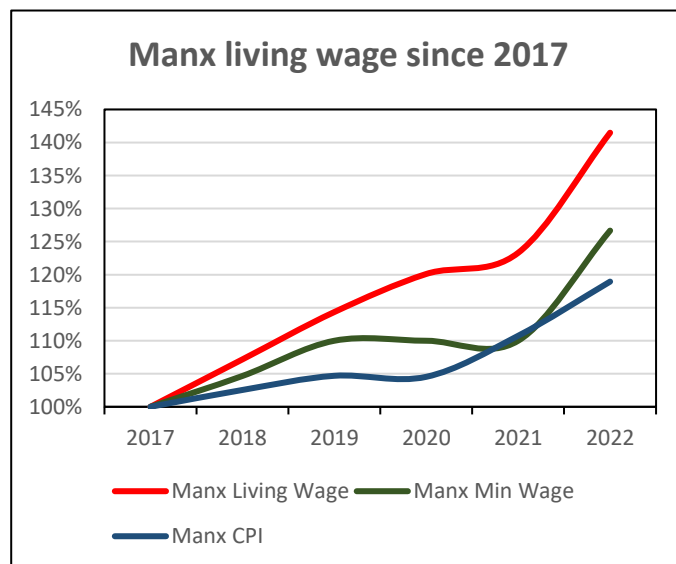
The graph below summarises how Isle of Man Living Wage has evolved since its inception as a non-statutory rate in 2017.

As can be seen, it has massively outstripped CPI and Minimum Wage, with a 41.5% increase between 2017 and 2022 due to the higher-than-average inflation attributed to the essential products and services contained in the calculation.

Likely evolution to April 2025

When introducing the latest Living Wage rate of £11.05 last summer, Minister Allinson stated that the increase (of 14.7%) did not include the high inflation that had emerged during 2022. Minister Hooper also recently

said that the current gap between minimum and living wage would be reduced in stages. It was £1.55 until the new Minimum Wage rate was announced recently, so we estimate a 2023 Living Wage rate of around £12.00 reflecting both a significant increase and a narrowing gap.





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Currently, increases in Minimum Wage incept from 1 April each year, whereas Living Wage announcements are variable. However, to complete the transition, 2025/26 Living Wage will have to be announced before 1 April 2025, so there are two further increases to come beyond the 2023 rate (24/25 and 25/26).

Inflation is forecast to fall significantly (circa 4% going into 2024 and, circa 3% for 2025), but past calculation of Living Wage suggests ongoing levels of increase significantly above CPI. Over 2017-22 it has averaged more than twice the CPI rate, but even if we assume some slowing (less disruptive economic environment) it seems likely that April 2025 will see a Living Wage in the £13.25-£13.50 range. All up (with NHI included), that means a minimum employment cost of nearly £31,000 for an unqualified and/or inexperienced employee over the age of 18.

Beyond 2025

Based on the evidence to date, Living Wage increases are likely to consistently outstrip CPI, giving rise to embedded inflation. Local businesses will face spiralling payroll costs and pressures to contract or close. Direct purchasing from the UK and overseas (cutting out local producers and wholesalers) will gather pace as local products become too costly, and visitor numbers could come under pressure as accommodation and hospitality becomes considerably more expensive.

Over time, there is also the real prospect of more sectors being pulled into the net. Those that might be comfortably above the starting threshold may not have the headroom for long. If Living Wage were to outstrip CPI by 2% per annum going forward, then wages could rise 10.4% in real terms between 2025 and 2030, eroding pre-existing headroom for many businesses.

Cascade effect

Most businesses in the impacted sectors have shallow wage structures. Supervisory and senior supervisory roles may only be differentiated from entry level rates by 50p or £1.00 per hour. Consequently, increasing minimum rates of pay from £9.50 today to £13-plus by 2025 will cause very significant wage inflation. Granted, few employees are on the minimum wage, but many aren't far above it, and the maintenance of differentials will lead to a cascade effect right through pay tables.

UK rates

Our biggest and most immediate competitor is the UK. If Isle of Man becomes uncompetitive through higher payroll cost, the hardest-hit sectors will likely be those that contribute the most to the circulating economy, namely retailers, hospitality providers that underpin local supply chains and visit sector businesses that bring inbound spend.

The UK has an upper-quartile statutory wage rate in global terms, but no plans to transition to a living wage in the sense that the Isle of Man Government seeks to do. Based on past rates of increase in UK minimum wage, it's likely that the gap between their statutory rate and ours will quickly diverge, reaching £1.50 - £2.00 per hour by 2025 and widening further thereafter. Even worse, young and trainee worker rate disparity could reach £5.00 - £7.00 per hour by 2025.



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Detaching from UK rates at such a speed carries significant risk, a point that the Minimum Wage Committee highlight in their most recent report where they question the sustainability of the policy.

Conclusion

Chamber supports the principle of moving towards Living Wage in a measured and affordable way. However, we believe that the currently planned transition risks putting many local businesses in economic distress and may have the opposite effect to that intended (business failures leading to less jobs rather than better pay). In our view, the policy requires a proper economic appraisal (which, to our knowledge has not been carried out) and any ultimate transition either needs to be slowed down or cushioned by government funded support measures for the most vulnerable sectors.

Yours sincerely

Rebecca George
Chief Executive (For and on behalf of the Chamber Board)