



**Isle of Man**  
Government

*Reiltys Ellan Vannin*

# Minimum Wage Committee

*Bing Faill-By-Loo*

**Chief Executive**  
**Mark Lewin**

**Mr Nigel Walker**  
**Secretary to the Minimum Wage Committee.**

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19<sup>th</sup> December 2022

Hon. Mr L. Hooper, MHK,  
Minister,  
Department for Enterprise,  
St George's Court,  
Douglas,  
Isle of Man.

Dear Minister,

## **Re: Minimum Wage Recommendation**

Further to our correspondence in October 2022, the Committee has now had the opportunity to briefly consult with the Public, Employers, and the Trade Unions, and to meet to consider the evidence and feedback provided in the context of the legal considerations required, the Tynwald policy decision, and the specific requests in your letter. The Committee regretted that you were unable to meet with it on 27<sup>th</sup> October, as you had requested. All meetings were quorate and the decisions unanimous. The Chair's casting vote was not required.

Given the tight timescales requested, the Committee sought to speed up the process by considering the Tynwald policy "**that the Minimum Wage should transition to the Living Wage within five years**" made in July 2021, prior to the publication of the Public Notice. Accordingly the Committee resolved to call for evidence on a proposed rate of £11/hour, representing the inclusion of this year's inflation, and also a 30% erosion of the difference between the Minimum Wage and the Living Wage. You will note that the Committee has also resolved to change the format of the recommendation, to a shorter letter format, which has also assisted in facilitating the deadline.

Whilst this attracted a great deal of comment in the press, including one political party calling for the minimum wage to rise to the level of the Living Wage immediately; the Committee noted, with some regret, despite commenting on both the radio and the newspapers, that no response to our consultation was actually received from that political party. The Committee was pleased to consider the 22 responses from businesses and individuals, and figures in public life.

The overwhelming response from businesses was that a rise to £11 could jeopardise their ability to continue trading. The Committee heard that inflation and other cost pressures were already making the position extremely difficult and noted that the UK Government had already stated that they (our largest trading partner) are already in recession. The Committee considered **the wider social and economic implication of any minimum wage to be prescribed under the Act** resolved not to proceed in recommending a rise to £11 in April 2023.

The Committee heard evidence that in a tight labour market, a rise in the minimum wage was likely to impact upon both recruitment, and the ability to bear any additional costs of employing disadvantaged members of the labour force. In particular women in part time employments, the elderly having to return to the workplace and undertaking limited hours due to their

physical position, and disabled workers. The Committee having considered **the likely effect on employment, especially amongst disadvantaged groups, and its effect on different groups of workers**, felt that whilst inflationary pressures demanded a proportionate rise, now was the time for caution, and not an imposed increase in business costs associated with a third inflation-busting rise in the Minimum Wage, in as many years.

The Committee heard from one concerned small business owner, who explained that a rise to £11 would be an increase of 15.8% on the company's wage bill. The Committee noted the business owner had reported that in the previous year, when the minimum wage had increased by 15.15%, the wage bill in that business had increased by 12.32%. Thus it was likely that the total effect of the rise was not felt by the business due to a squeezing of the pay bands/greater cost efficiency. Therefore having regard to the Minimum Wage's **impact on the costs and competitiveness of business** and the **effect on pay structures** the Committee concluded that the recommended increase would likely continue to improve efficiency, whilst ensuring that businesses continued to trade effectively. The Committee also noted that the recommended increase to £10.45/hour would represent one of the highest rates of the Minimum Wage in the British Isles, behind only Jersey at £10.50; ahead of Guernsey at £9.55, the UK at £10.42, and the Republic of Ireland at €10.50 (£8.99 at time of writing) rising to €11.30 (£9.68 at time of writing), thereby helping to maintain the Island's competitiveness as a jurisdiction. It is to be noted that the rate of the minimum wage is such that it is increasingly impacting on sectors normally deemed to be higher paying. A forty hour week at the proposed rate would equate to £21,736/annum gross.

A second small business owner informed the Committee that if their business's percentage wage costs went any higher, it could affect the viability of the business. This business was also particularly reliant upon younger workers, and the Committee, considering the **impact on pay, employment, and competitiveness in low paying sectors and small businesses** considered that it was important that any rise did not result in increased business closures above the level of normal natural wastage. The Committee further noted that despite two substantial increases in the minimum wage in two years, that the Job Seekers Allowance claimant count was at the lowest levels seen in almost 20 years, and the destinations survey revealed that the highest percentage of young people were leaving education for full time work, since 2015.

With regard to the Minimum wage's **effect upon inflation**, the Committee noted that whilst Minimum Wage workers had received higher increases in comparison to other groups of workers, that their pay remained low, and the current round of inflation had happened anyway. The Committee noted that if the recommendation was accepted, and a rise of 95p/hour was approved, this would represent a 10% increase, which currently roughly represented the rate of inflation; so this increase would be reacting to inflation, whilst ensuring that workers can continue to flourish; but not driving inflation.

On previous representation the Committee had been led to believe that April's benefit increases are normally based on the inflation figures the previous September. In this case, the Committee **considered the interaction between minimum wage rates and the tax and benefit systems** and that this would represent an increase of 9.8%. As such the proposed increase of 10% in the single hourly rate was unlikely to impact significantly on **the costs of public authorities**, whilst maintaining a situation where individuals were better off in work. The Committee noted that it did not receive information concerning any proposals to adjust tax rates, proposals to adjust benefit rates, or proposals to adjust National Insurance rates during this review (although the Committee further noted that a thorough review of National Insurance is presently ongoing). The Committee noted that if tax rates remained unchanged, some youth rate minimum wage recipients would drift into being taxed. Equally, an individual who undertook 40 hours' work at the proposed single hourly rate of £10.45 would also be a top rate tax payer. Whilst the Committee felt that it was right and proper that people contribute

towards the costs of society, the highest level of contribution by this cohort of earners may well be seen as punitive.

Turning to your request that the Committee **consider the current age banding and "Development worker" rate** the Committee once again heard evidence that the removal of the current age banding would prove problematic. The Committee considered the practicality of a "probationary rate" (for the first period of employment in any role) and a "full time education rate" (for those in, or returning to full time education), and found insufficient bases to recommend either of these two approaches. The Committee respectfully requests that if this issue is to be reviewed again, that the Department provides to it, its rationale and evidence for this, prior to the Committee considering any future rate.

The Committee did hear evidence this year that the Development Worker rate had, at best, caused some confusion in the Construction sector, and at worst, workers appeared to have been exploited. Given the small numbers of people affected, and the other routes available to assist with the costs of genuine accredited training (training grants for workers, and the potential for allowable business expenses etc.), the Committee resolved unanimously to recommend the abolition of the Development Worker rate. The Committee was of the view that this would not prejudice workers' opportunities to undertake accredited training, and would clarify the system for all parties.

Additionally, the Committee has noted that in the past there have been issues in the calculation of the Living Wage. The Committee is aware that the methodology used in the Island is broadly replicated from the Citizens UK Charity specialising in this approach in the United Kingdom. However the U.K. Government until recently set their "National Living Wage" target as 60% of Median earnings for the over 24s, and has recently changed this to the rate of 66% of median earnings for the over 21s. The Republic of Ireland on the other hand has accepted a recommendation to set a single rate at 60% of median earnings for all workers. Incidentally, the Living Wage rates set on the Island so far happened to equate to 59%, 60%, 62%, 66%, and 59% respectively, of the median earnings in those years, which is broadly the same ballpark; and taking a percentage approach to median earnings may be a less complex calculation than the one currently being undertaken for the Living Wage.

## **Conclusion**

The Committee has therefore resolved unanimously to recommend the following:

- 1) The single hourly rate of the minimum wage should rise from £9.50/hour to £10.45/hour from 1<sup>st</sup> April 2023.
- 2) The young workers rate of the minimum wage should rise from £6.80/hour to £7.50/hour from 1<sup>st</sup> April 2023.
- 3) The development worker rate should be abolished.
- 4) The accommodation offset should remain unchanged at £1.05/hour, £6/day, or £42/week.
- 5) Several parties, and the Committee itself are concerned that the rate of transition to the Living wage may be unsustainable. When Tynwald passed the resolution in July 2021 with the aim that the two rates should converge within 5 years, this effectively left only four Apriils by July 2026. This recommendation will represent the second such April. The Committee whilst supporting the aim, recommends that this deadline be reviewed.
- 6) For the time being, the Committee has resolved to attempt to erode 50% of the remaining difference next year, and the remaining 100% of the difference the final year;

however the Committee is legally obliged to consider the prevailing economic circumstances at the time, and the Living Wage is presently published approximately one month after the rate takes effect, and therefore the Committee is obliged to be guided by its deliberations.

The Committee looks forward to the outcome of your deliberations, pending which, if you require any further clarification please feel free to contact me via the secretary.

Yours sincerely,

A handwritten signature in cursive script, appearing to read 'AM Weadock', followed by a period.

Ms Anne Marie Weadock,  
Chair Minimum Wage Committee