

FDF response to Low Pay Commission Consultation on the National Minimum Wage (NMW)

1. The Food and Drink Federation (FDF) is the trade association representing the food and drink manufacturing industry, the single largest manufacturing sector in the UK. Our industry has a turnover of £92bn and Gross Value Added (GVA) of £24bn (including alcoholic beverages), accounts for 18% of the total manufacturing sector by turnover and employs just over 400,000 people.
2. Issues relating to the National Minimum Wage (NMW) are of great importance for FDF members in helping to maintain the competitiveness of, and employment levels in, the UK food and drink sector. FDF's evidence to the Low Pay Commission (LPC) is based on consultation with representatives from FDF members facilitated through its Employment and Skills Forum.
3. FDF's evidence in response to the latest consultation exercise by the LPC about the NMW is set out below.

QUESTIONS FOR LOW PAY COMMISSION CONSULTATION – 2015 REPORT

What are your views on the outlook for the UK economy, including employment and unemployment levels, from now through to September 2016?

4. The UK economy will keep growing to 2016. Economic forecasts predict GDP growth of between 2% and 3.6% in 2015 and similar growth in 2016 (OBR Economic and Fiscal Outlook reports). Manufacturing is likely to continue to grow and pressure to build more homes may feed through to a greater contribution from the construction sector.
5. Employment in food and drink manufacturing is set to continue to decline over the next two years as our industry becomes more capital intensive. As a result a larger percentage of the workforce in 2016 is likely to be highly skilled. Sector specific projections made by Improve indicate that employment in 2020 is likely to be 1% higher than in 2010 and that the trend of falling industry employment is set to change towards the end of the decade as the UK population continues to grow.

What has been your experience of wage growth in the UK during the last year and what do you forecast for the next twelve to eighteen months?

6. The difficult trading conditions connected to UK food and drink retailers are likely to result in slow growth in 2015/16 if consumer habits continue (less food waste and a shift to using discounters over the top 4 supermarkets).
7. Wages in our sector including bonuses were 4% higher when comparing 2013 against 2012 but only increased by 1.3% in the first half of 2014, below the rate of inflation. (Using ONS Average Weekly Earnings data).

8. FDF expects low wage growth to continue in our industry whilst businesses remain uncertain about growth prospects throughout 2014 driven by lower real wages for the majority of consumers resulting in subdued spending on household food and drink.

What has been the impact of the National Minimum Wage (NMW), (for example, on employment, hours and profits), in particular over the last twelve months? Has this impact varied (for example, by sector, type and size of business or groups of workers (including women, ethnic minorities, migrant workers, disabled people, older workers, and those who are unqualified)), and if so how?

9. Since its introduction in April 1999, the NMW has been increased by the Government at a rate which is well in excess of the rate of inflation or the level of pay settlements that have been reported by FDF members over this period. As a result, the NMW has had a direct impact on pay levels and the structure of remuneration for FDF members. In particular, members have reported pressure to maintain differentials between their basic rates of pay and the NMW as some employees still attach a stigma to the term 'minimum wage' and therefore seek to maintain a distance from employers paying the NMW.
10. Whilst the NMW may initially have had only a minor direct impact on FDF members, they have always felt its indirect impact on the cost of services, such as cleaning, catering and security, which are provided to them. Suppliers of these services, which are generally labour intensive, try to pass on the direct cost of any increases in wage costs, such as the NMW, to FDF members and this therefore has an adverse effect on their competitiveness.
11. Over the last few years, FDF members have reported considerable upward cost pressures, particularly for fuel and raw materials and these, together with the additional burden of increased labour costs, have had an adverse impact on them. Changes to employment regulations, such as the Agency Workers Regulations, the right to request flexible working and the removal of the Default Retirement Age, and the introduction of pensions auto-enrolment, have had a significant cost impact particularly for smaller companies and companies paying the NMW to some of their employees. Business profitability has also been significantly squeezed in recent years.
12. FDF considers that it is critically important for the future competitiveness of the UK food and drink manufacturing sector that the direct impact of the NMW on its members is minimised. In the current more difficult and uncertain economic climate, it will therefore be particularly important for the LPC to adopt a cautious approach when making recommendations to the Government about future increases in the NMW to minimise any possible adverse impact that these increases could have on business costs, competitiveness and employment levels.

What do you estimate will be the impact of the 3 per cent increase in the adult rate of the NMW and 2 per cent increase in the youth and apprentice rates in October 2014?

13. The 3 per cent increase in the adult rate of the NMW is unlikely to have a direct impact on FDF members as most pay according to the market, rather than the NMW. However, this will increase pressure around the cost of services, such as cleaning, catering and security, and the stigma around the term 'minimum wage' remains.
14. As FDF members rarely use the apprentice rate of the NMW for their apprentices as they already pay higher rates to attract high quality applications for vacancies, they have questioned the need to have a specific rate of the NMW for Apprentices. Apprentice rates also increase complications around compliance as companies have to administer two different rates.

In our 2014 Report, we made an additional assessment of the future path of the NMW. This looked at what economic and business conditions needed to be in place to allow a faster increase in the minimum wage rates taking into account the implications on employment. Do you have any comments on that assessment? What economic and business conditions do you think need to be in place for faster increases in the NMW?

15. Over recent years, FDF has argued that an appropriate formula should be used to determine future increases in the NMW. FDF considers that this approach would give employers greater certainty about the direct and indirect impact that future increases in the NMW are likely to have on their businesses. This would therefore make it easier for employers to plan and budget for any anticipated cost increases. It would also enable them to implement any changes that they feel need to be made to their pay levels and/or remuneration structures in a more controlled and cost-effective manner.
16. FDF considers that the formula which should be used by the LPC to determine future increases in the level of the NMW is the movement in basic rates of pay across the economy over the previous 12 months. This formula should be used because the NMW is a basic rate of pay with employees who are paid the NMW able to enhance their earnings through additional payments such as, for example, shift pay, overtime and bonus payments. Since the NMW is a basic rate of pay, FDF would therefore strongly oppose having a formula for determining future increases in the NMW that was linked to increases in average earnings

What has been the impact of the minimum wage on young people and what effect do you think it has on their employment prospects?

17. FDF perceives that the biggest impact of the NMW on young people is the pressure faced by FDF's members to maintain differentials between their employees' basic rates of pay and the NMW as some employees still seem to attach a stigma to the term 'minimum wage' and therefore appear to want to ensure that there is a gap between their rate of pay and the NMW. In order to try to reduce this perceived stigma, some FDF members have therefore suggested that consideration should be given to renaming the NMW as a 'standard pay rate'. There are also concerns that the NMW is used as a default rather than the right rate for the job.

18. The food and drink industry currently pays according to the market for both employees and apprentices, rather than the NMW and most FDF members already pay well above the NMW apart from a few entry level positions.

What has been the impact of the Apprentice Rate on pay, provision, take up and completion?

19. Companies in the food and drink sector already pay well above the Apprentice Rate, therefore changes to this have not impacted our industry. However, as stated above, for this very reason some FDF members have questioned the need to have a specific rate of the NMW for Apprentices.

Do you think the structure of the Apprentice Rate should change? Could it be made simpler to help improve compliance? Do you think the Apprentice Rate should apply to all levels of apprenticeships?

20. The system could be made simpler by removal of an apprentice rate. This would also improve compliance as companies would only need to negotiate the standard rate for NMW.

What do you think might help employers to comply with paying the right pay rate for apprentices?

21. Further funding support for apprenticeships at all levels, including higher level apprenticeships, would help employers to comply with paying the right pay rate for apprentices whether this is linked to the NMW or market rates.
22. The level set for co-investment is vital to the success of the Apprenticeships because it will determine whether programmes are financially viable for employers to be able to invest. Co-investment encourages employers to commit to the development of their Apprentice, but if too much is demanded of employers, beyond their existing investment through internal training and scheduled work, then Apprenticeship numbers are likely to reduce substantially. The danger of over-burdening employers should not be underestimated, and will determine the success or failure of the system.

Do you have any further comments on apprentice pay?

23. FDF fully supports the Government's intention to develop a demand-led skills system that puts employers in control of Apprenticeships. We therefore believe the PAYE model which will allow employers to take ownership of Apprenticeship funding arrangements offers an opportunity to create a simple system given that many employers will be familiar with PAYE systems. However a clear implementation process will be critical if it is to be accessible to employers of all sizes.

What issues are there for compliance with the NMW? Do particular groups experience problems with NMW compliance (for example, apprentices, or interns and others undertaking work experience)? Does this non-compliance

have implications for the level of the NMW rates, the quality and accessibility of official guidance on the NMW, or for the enforcement work of HMRC?

24. Compliance issues centre on having to accommodate both the standard rate for NMW and apprentice rate for the NMW for your workforce. Moving away from the latter means that compliance becomes simpler.

At what level should each of the rates of minimum wage (for adults, 16-17 year olds, 18-20 year olds, apprentices, and the accommodation offset) be set in October 2015?

25. As outlined above, FDF would suggest an appropriate formula should be used to determine future increases in the NMW base on the movement in basic rates of pay across the economy over the previous 12 months.

Do you have any other views or evidence about the operation and impact of the National Minimum Wage?

26. Within much of the private sector including the food and drink industry, pay bargaining and pay determination is now often decentralised to company and, sometimes, even to plant level with an increasing number of employers linking future pay increases for their employees more directly to the company's economic performance and/or the economic circumstances that they face. FDF believes that using our proposed formula for determining future increases in the NMW would therefore mean that these increases are more likely to reflect the economic environment in which its members are operating.