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Low Pay Commission – Consultation on the National Minimum Wage

The NFU represents 47,000 farm businesses in England and Wales. In addition we have 40,000 countryside members with an interest in farming and the countryside. The NFU also represents employers on the Agricultural Wages Board of England and Wales which sets the agricultural minimum wage for England and Wales.

1. Economic and Policy Context

1.1 Our views on abolition of Agriculture Wages Board (AWB)

Agriculture and horticulture is uniquely the only sector of the economy to have sector specific wages orders for England and Wales, Scotland and Northern Ireland which set the agricultural minimum wage. In July 2010, the coalition government announced its intention to abolish the Agricultural Wages Board (AWB) England & Wales.

The NFU supports the government's plans to abolish AWB and sees the abolition of the Agricultural Wages Order (AWO) as an opportunity for individual farm businesses to recruit and retain workers without the restrictions of the order. The abolition of AWB is consistent with the aspiration to foster an efficient, competitive and modern farming sector, contributing to economic growth, and meeting the challenges of feeding a growing global population.

Abolition represents an opportunity for us to become aligned with other sectors. Agriculture is unique in maintaining the AWB and our sector is unique in having employment and wage terms covered by separate legislation. Farm businesses employ 142,000 farm workers in England and Wales out of a total employed workforce of 25.7 million. Yet we have a wages order in place that covers just over 0.5% of the workforce. Looking at it another way, some 37,000 farms in England employ workers. This is just 1.7% of the total businesses in England. Over 98% of other businesses have no sector specific order relating to minimum wages for their business. The majority of workers employed by businesses in this country do not require an independent body to set minimum wages, nor decide other terms and conditions. This seems entirely consistent with modern notions of workers' rights, industrial relations and business management. Simplicity can be achieved by aligning terms and conditions with other sectors, and facilitating comparisons across different job roles. AWB adds to confusion for both workers and employers, duplicating regulation and creating an unnecessary administrative burden, hindering business development.

Anyone working in farming knows that the industry is characterised by a staggering diversity of business types and production systems, perhaps more so than any other sector of the economy. Some businesses require large numbers of temporary workers for low skilled roles. Others employ highly-skilled, salaried managers responsible for the operation of multi-million pound farming businesses. The increasing specialisation of farming and the inherent seasonality inevitably means peaks and troughs in labour need, yet the AWO does not allow that flexibility.

Similarly, recent years have seen contrasting fortunes across agricultural sectors. For example, profitability of cereal farms increased significantly in 2010/11 reflecting a peak in commodity prices, whilst a quarter of horticulturalists failed to generate any profit. Yet wage settlements continue to be determined in a way that is almost a one-size fits all approach. And with volatility expected to become the norm, the rationality of an industry-wide wage settlement must be questioned. Our vision is for pay that is more related to productivity and skills, and where performance and the contribution to the individual business are given increasing precedence.

There have been claims that farm workers will suffer lower wages if the AWO is abolished and that farm employers will simply seek to pay their workers the minimum allowed under National Minimum Wage legislation. Claims of such an outcome are clearly ill-founded. They pay no regard for current rates of pay or existing contractual obligations. More importantly, they take no account of the commercial realities of farming businesses that operate in a competitive marketplace and where skilled and qualified farm workers are highly sought after and well-rewarded. Farm work does not feature in the lowest paying job roles identified by government statistics,

Rates in the industry are not the lowest when compared to the wider economy and the reality is that few farm workers currently receive the minimums set by the board. Average earnings in 2010 for full time farm workers were 41% above the industry minimums set by the board. On average, farm workers are over £100 per week better off than the tens of thousands employed in retail and hospitality roles for example. Abolition will allow farm businesses to operate on the same terms as other employers, but it will not remove the market drivers that already determine wage levels for many farm workers.

1.2 Our views on the outlook for the UK economy

The outlook for UK economy remains uncertain. Indeed, the UK economy is back in 'technical' recession and GDP has now contracted for three successive quarters. The growth projections for this year have therefore been revised down, not because of any change of view about what happens from here on, but purely on account of the worse-than-expected start to the year. The Bank of England has revised its estimate of UK economic growth for 2012 down to zero compared against the previous forecast for growth of 0.8% three months ago. The economy is expected to grow by around 1.9% in 2013.

CPI inflation fell to 2.4% in June 2012, from 3.5% in March. That fall was almost entirely accounted for by lower goods price inflation, including a lower contribution from petrol prices. Agricultural commodity prices have risen following unusually dry weather in the United States. The Bank of England forecasts suggests that inflation will slow to two per cent by about the middle of next year and to about 1.6% in two years. Although considerable uncertainty surrounds the inflation outlook (particularly as inflation can be buffeted by movements in volatile commodity markets), slowing price rises is a positive and inflation concerns in determining NMW should be tempered.

In terms of labour market, the economy has continued to create new jobs in the recent months. Not only has the number of unemployed fallen, but the number of people in work has increased at a faster rate than expected. The latest data indicates that the UK employment hit its highest levels for over four years in the three months July 2012. The number of people in employment rose by 236,000 in the three months to July, taking employment up to 29.56 million.

However, it cannot be ignored that there are over 2.59 million currently unemployed, and perhaps more worryingly, the number of people that have been unemployed for more than one year rose to 904,000, its highest since May 2006. The closely-watched category of youth unemployment also saw the number of 16 to 24-year-olds who are out of work rise by 7,000 to 1.02 million. This group has been affected more than any other in the recession, continuing a long-term downward trend in their labour market prospects. Given the current fragile state of the labour market, the National Minimum Wage should carefully be assessed to ensure that any increase in the NMW does not adversely affect job market prospects by limiting job growth, particularly for younger workforce.

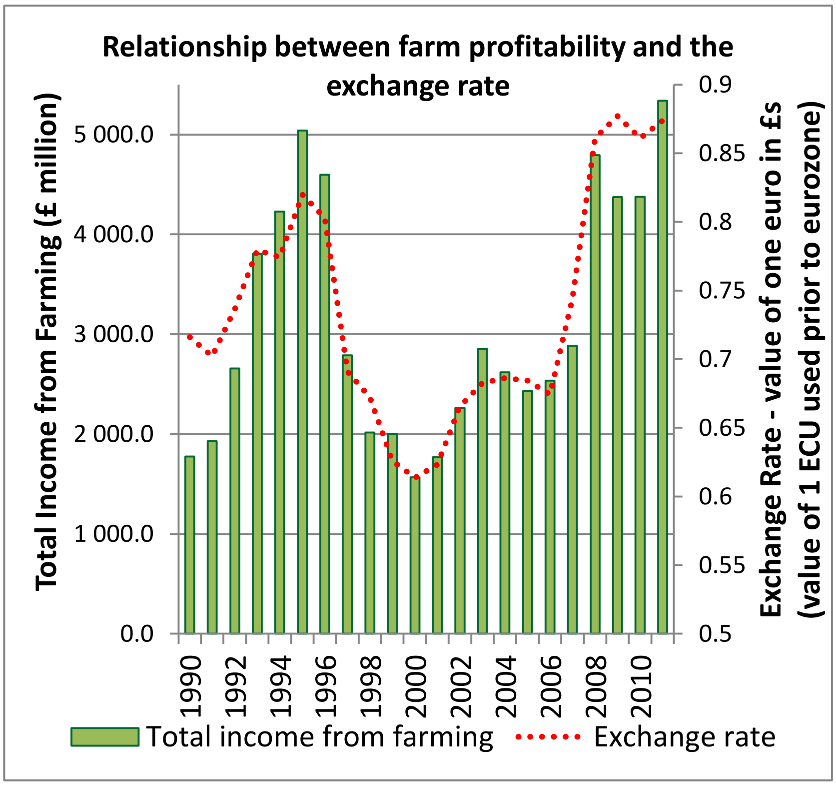
1.3 UK agricultural outlook

Agriculture is the biggest onshore primary industry in the UK. Agriculture's contribution to the economy as measured by GVA (Gross Value Added) is at its highest since 1996. Collectively, agriculture and horticulture contributed around £8.84 billion to GVA in 2011, a year on year increase of 25%. Contradicting the economic downturn in the UK, the last five years has seen relative strong performance, in terms of output and profitability. However, agricultural markets have also been increasingly characterised by market volatility over this period, and the current year is no different.

Weather has been at the forefront, both in the UK and internationally. At the global level, drought in the USA has seen crop forecasts significantly reduced and driven up cereal and oilseed prices. Although UK crop farmers have seen higher prices, the wettest Q2 on record has impacted crop yield and quality this side of the Atlantic, with both falling below average. This has further fuelled price rises in domestic markets for cereals, which are triggering higher feed costs for the UK's livestock producers. The outlook for 2012/13 is very different across different farming sectors. A consolation of this year's challenging harvest and plethora of poor quality crops is that prices will remain strong, with futures prices set to remain at relatively high levels until 2014 at least.

However, this means that higher feed costs are inevitable across the board, and that will hit livestock producers for the foreseeable future. The other factor that will bear down on livestock is the strengthening of sterling as the UK economy slowly recovers. That will make imports cheaper, and in turn, will push down UK farmgate prices. For example, we've already seen an increase in Irish beef supplies entering the UK and that is forecast to continue, whilst the challenges of dairy (cost of producing one litre of milk higher than the farmgate price) have been well documented. Whilst agricultural commodity prices may be high and the total output of UK agriculture on an upwards trend, the increases in the cost base look set to restrain farm margins.

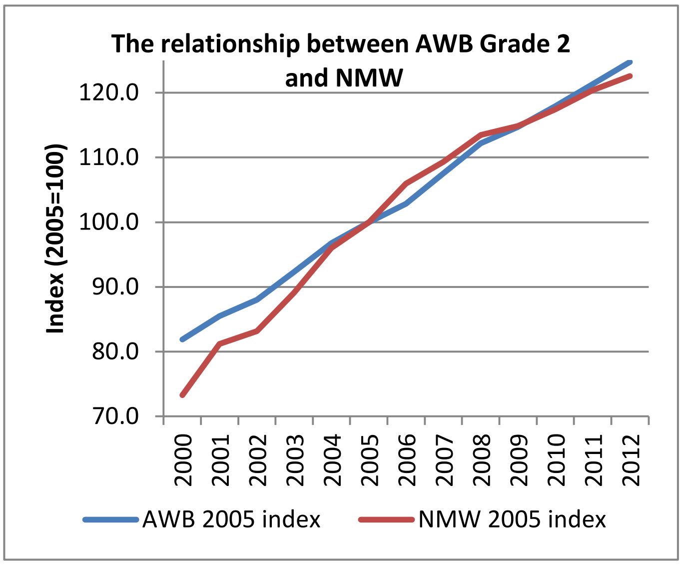
An important factor in determining agricultural profitability is the exchange rate. Weaker Sterling has benefited UK agriculture, encouraging exports and making domestic products more competitive versus imports. It has been a key factor in the improved total income from farming (a measure of agricultural profitability) in recent years, and the increase in 2011 (as illustrated in the chart).With Sterling strengthening through 2012, this will put further downwards pressure on farm incomes and squeeze the competitiveness of UK agriculture. Maintaining cost competitiveness versus EU competitors will be critical to the future profitability of farming. With wage costs equivalent to 10% of farming output, increases in pay will be a factor in UK farm competitiveness.



- Euro/£ exchange rate – cheap Euro so keep NMW down to retain competiveness;

2. Level and impact of the NMW

The Agricultural Wages Board sets minimum rates of pay for six grades of worker. In recent years the lowest rate, for workers in grade 1, has been set at just above the adult NMW. This grade typically covers casual workers and accounts for an average of 19% of farm workers. Minimum rates of pay for other agricultural workers in grades 2 to 6 have been well above the adult NMW. As the IDS report[1] on NMW implications of the abolition of AWB notes, "official earnings data for the sector show that many employers already pay above the minimums provided for in the Order, with most employees paid above, and in many cases more than 10 pence above minimum rates under the Order, driven by market forces in some areas." Although it could be considered that the presence of AWB means that NMW has a minimal impact on agriculture, it should be remembered that NMW does serve to set a floor to AWB grades and provides an indication of potential grade increases.



Post-AWB, the annual NMW increase could be considered a useful indicator for wage negotiations, along with wage settlements in the wider economy, inflation and sector profitability. Indeed, recent analysis of AWB and NMW increases show that since 2005, year on year increases in NMW and AWB have been relatively similar and show greater correlation than other frequently used indicators.

Clearly, the importance of wages varies between farm businesses and between sectors. Horticulture is the main employer of grade 1 workers, and the rise in NMW would have most significance to them. Regardless of whether or not AWB is abolished before 2013 negotiations take place, an increase in NMW will have most impact on the horticulture sector and add upwards pressure to the cost base. At present, the food supply chain and particularly retailers are resistant to wholesale price increases for horticultural crops, with the fresh produce sector a key area of price competition at the consumer level. In the current climate, rising costs of production at the farm level are seldom recognised with higher farmgate prices, with higher wage costs most likely to impact directly on the bottom line.

The NFU recommends that the bite of the National Minimum Wage is not increased at this point in the economic cycle. The recommendations made by the Low Pay Commission play a significant role in preceding wage settlements for individual businesses. An increase in NMW of over 2% may limit the growth in the job market any may impact on job prospects for younger workers. The NFU calls for balance in determining the NMW increase in 2013, recognising the need to price workers into jobs.

3. Young people, Apprentices and Interns

The NFU aims to stimulate the entrance of young people into farming. We have been advocating raising farming's profile as a career amongst young people, working with LANTRA (the land based sector skills council) to inform employers about the benefits of recruiting apprentices. The NFU runs its own programme aimed at young businessmen and businesswomen who want to get involved in the NFU and leading agriculture.

[1] http://www.lowpay.gov.uk/lowpay/research/pdf/IDS_report_on_abolition_of_the_AWB_v04FINAL.pdf

Currently, except for children and apprentices, there is no age related discrimination in the rates set by the Agricultural Wages Board. This means that there is no difference in wages between employers hiring experienced employees at minimum rates and farm businesses taking on younger people. From an industry perspective, there is no financial incentive for farm businesses to employ younger workers, and this may be a factor in limiting opportunities for new entrants. Furthermore, the cost of employing an apprentice for the first year of their employment is incredibly high creating an obstacle for farmers looking to employ an apprentice. The NMW youth rate might encourage farmers to take on more young people. Of course, this is just one factor in encouraging new entrants. There remain further barriers for attracting new entrants to agriculture, including affordable housing, high fuel costs and poor transport systems in rural areas.

4. Accommodation Offset

Previous NFU surveys have showed that the actual costs associated with accommodation typically exceed the maximums allowed by the accommodation offset. The 2009 survey of workers showed costs averaged £5.27 per worker per day compared to the accommodation offset of £4.51 per worker per day. We repeated the exercise in 2011 and found that average costs had increased by 35p to £5.62 compared to the increase in offset of 10p. A separate survey by farmers weekly of 2,000 farm workers showed 43% of respondents had a tied cottage as part of their employment package and a further 15% had another type of accommodation. Of the remaining 42%, 7% said that the one thing they would change about their employment package would be the inclusion of some accommodation.

It is likely that a substantial increase in the offset will yield better reinvestment in accommodation. Current accommodation, for those likely to incur the accommodation offset, typically consists of a caravan. This reduces the attractiveness of farm work to domestic workers. Better quality accommodation is likely to encourage more domestic workers into farming. Anecdotally, large scale horticulture businesses have suggested to the NFU that a realistic increase in the accommodation offset would be £10-£15 per week more than the current level.

5. Enforcement

The NFU objects to underpayments of the NMW or AWO being calculated at the rate of the latest NMW or AWO rates as applicable, and not at the appropriate historic rate of the NMW or AWO. In our view, penalties on the employer for default should relate to the seriousness of the offence and not be confused with civil liability to pay. The use of the present AWO rate to calculate previous underpayments is all the more complex when compared to the NMW due to the numerous grades and categories of workers earning different minimum rates within the AWO.