Circulation: Low Pay Commission (LPC)

Date: 11th Oct 2013
Ref: NMW Consultation – NFU Response
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Low Pay Commission – Consultation on the National Minimum Wage (NMW)

Introduction

The NFU represents 55,000 farm businesses in England and Wales. In addition we have 41,000 countryside members with an interest in farming and the countryside. These farm businesses employ the majority of the 128,445 agricultural workers (excluding farmers, partners, directors and spouses (FPDS)) in England and the 13,469 agricultural workers in Wales (excluding FPDS).

June 2013 saw the Agricultural Wages Board (AWB), which set the minimum wage in agriculture under the Agricultural Wages Order (AWO) for almost a hundred years, officially abolished. It is our view that adopting more National Minimum Wage (NMW) legislation will have clear benefits for both farmers and farm workers in providing enhanced flexibility.

What are your views on the outlook for the UK economy, including employment and unemployment levels, for the period October 2014 – September 2015?

The year 2012 was another challenging one for the UK economy. The causes of the sluggish economic performance are by now fairly familiar. Both consumer and Government spending remained weak as these sectors of the economy try to adapt to cope with their debt hangovers. The hope that businesses would fill the gap has been repeatedly dashed. In addition, poor domestic demand has been compounded by weak export markets. Much of the weakness in exports is related to poor demand from the euro area which is the UK's biggest trading partner.

However, after a period of generally disappointing growth in 2011 and 2012, the UK economy has shown signs of recovery in the first half of 2013. The improvements in the economic data whether from official sources or surveys have been encouraging. The official data have reported some increases in industrial production, retail sales have gathered some pace, the housing market has re-awakened with prices now rising an annual rate of 4-5%, and labour market conditions continue to improve. Perhaps most important of all is the abrupt improvement in consumer and business sentiment. In addition, most of the major economies turned in positive GDP growth in the second quarter, while the long double-dip recession in the Eurozone has come to an end.

The general outlook remains one of a gradual gain in economic momentum. Signs are that the UK's economic recovery is gathering pace; both the International Monetary Fund (IMF) and the Bank of England have increased the growth forecast for the UK economy for this year and next. The Bank of England expects 0.7% growth in the third quarter of this year and its central projection sees growth of 2.6% in two years' time. In its half-yearly World Economic Outlook, the IMF projects that the national output in Britain would expand by 1.4% this year and by 1.9% in 2014. The UK economy will rebound strongly in 2015 although unemployment will persist. City forecasters believe the UK economy will beat expectations by expanding at 2.5% in 2015, with growth set to accelerate by as much as 4% in 2016. However, we should be realistic as the economic forecasts have been written off many times in the past.

Inflation has settled in a range of 2.5%-3% since last autumn, well above the 2% target. This was largely driven by higher energy, fuel and commodity prices. However, after the sharp rises last summer due to floods in the UK and drought in the US, commodity prices have fallen back and the food component of the CPI seems to be levelling off. In August, the fall to 2.7% marked the second month inflation had eased as prices for petrol, diesel and clothes rose by less than they did in August a year ago.

The Bank of England expects it to continue on a downward path but have warned there could be short-term spikes upwards along the way because of volatile oil prices. The latest forecast suggests that CPI inflation is likely to rise further in the near term and may remain above the 2% target for the next two years.

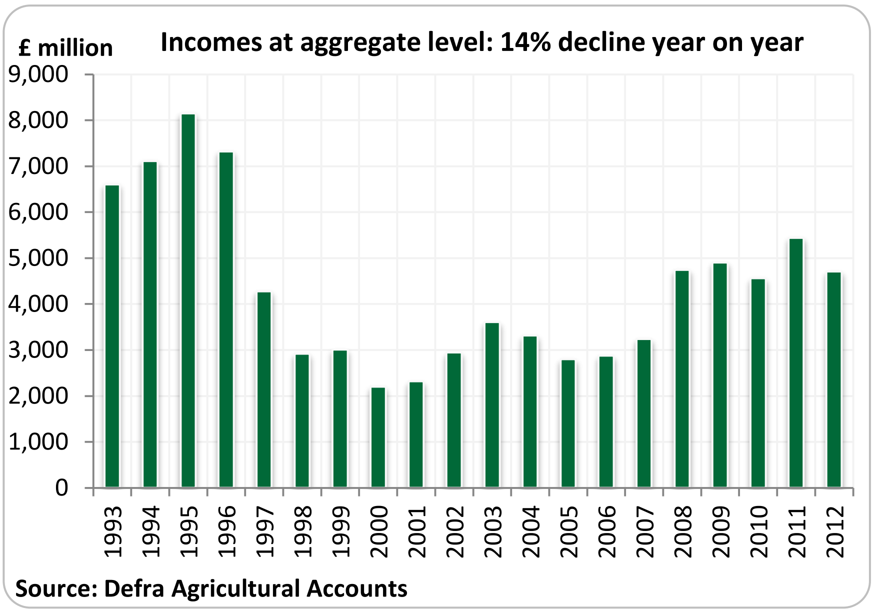
While job growth has been a relative positive in recent months, unemployment is still high. The jobless rate has become a closely watched indicator since the Bank's monetary policy committee introduced its policy of forward guidance, promising to leave borrowing costs on hold at their record low of 0.5% at least until unemployment falls to 7%. Unemployment on the broad International Labour Organisation measure tracked by the Bank stood at 2.49 million from May to July, down by 24,000 from three months earlier. That took the unemployment rate to 7.7%, from 7.8% over the previous three-month period, driven by a larger-than-expected 80,000 increase in employment.

Despite the improving picture, there was also evidence in the detail of the figures that conditions in the labour market remain tough for many. Long-term unemployment continues to remain high: while overall unemployment has fallen by 105,000 over the past 12 months, the number of people unemployed for more than a year is little changed, at just below 900,000.Young people are also failing to feel the benefit of the upturn, with youth unemployment 9,000 higher in May to July than three months earlier, at 960,000. 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 NMW 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.

Our views on UK agriculture industry

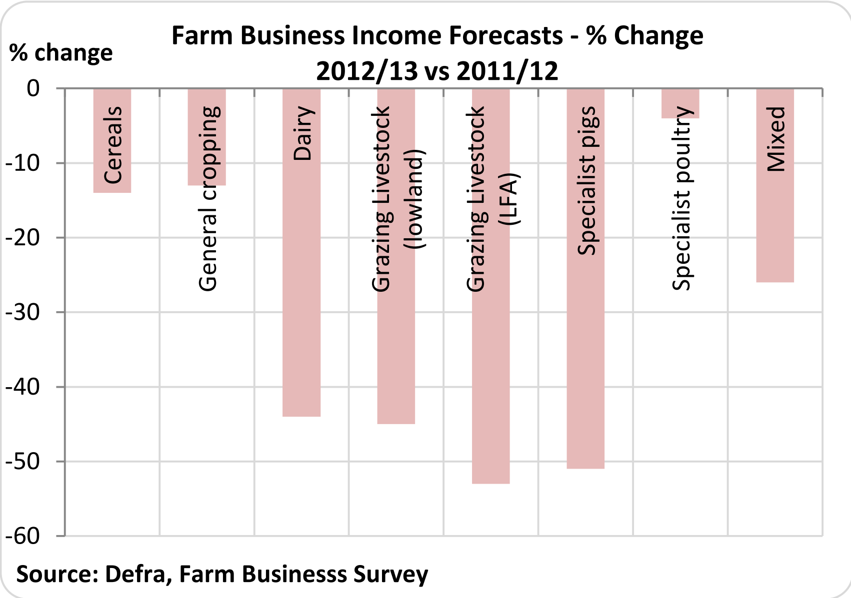
The past 18 months have truly tested the farming industry. Extreme weather events combined with volatile markets and rising cost pressures have all made 2012 a year to forget for many. The adverse weather events impacted output and in turn profitability of the sector. As a result, the gains in farm income experienced in 2011 were not sustained in 2012 as profitability declined by 14% year on year to £4.7 billion.



The wettest year in England on record combined with the dullest summer since the 1980s hit last year's harvest and subsequently delayed plantings of the 2013 crops. This drop in cereal output combined with increased input costs to hit the bottom line of arable producers. As for the livestock producers, the immediate concern was higher feed bills, as feed prices rose due to reduced global supply and higher demand.

Following on from the extreme weather of 2012, this year has again seen wide variations in the weather that have impacted on farm businesses. As well as below average temperatures recorded in January and February 2013, March was the coldest since 1962. The farming sector hit the news headlines early in year, given that lambing on many farms coincided with the spring snow. Yet the weather impacted on farming activity across several sectors. The cold weather hindered the growth of grass compared to normal years, leading to a longer winter housing period for many livestock producers, typically requiring more feed. This greater reliance on purchased feed through winter has increased the cost of production for farmers. Collectively, the above factors have hit the bottom line of farming but the pointers are for UK farming profitability to be further squeezed in 2013.

The aggregate profitability trends are reflected in sector forecasts for 2012/13 (12 months to Feb 2013). Forecasts predict a decline in the profitability of the average farm across the majority of farming sectors, as measured by Farm Business Income (FBI). The forecasts show profitability for the pig and dairy sectors falling by 51.3% and almost 43.8% respectively. For beef and sheep producers, falls of 45.5% are predicted for lowland producers, while their uplands counterparts have fared worse, with income falling by 53.3% year-on-year. However, it should be remembered that the aggregate figures hide a considerable range in performance both within and between individual sectors.



Lower profitability hit farmer confidence. The NFU confidence survey showed that short term confidence across farmer sectors plummeted in autumn 2012 as the industry suffered the effects of the wettest year in England in a century. Results from the 2012 confidence survey showed that only 22% of farmers surveyed were confident about the year ahead, compared to nearly one in two 12 months prior Some 42 per cent of farmers told the NFU that their farm businesses were in for a tougher year, up from 30 per cent in 2011.

A similar survey carried out in Spring 2013 indicated farmers' confidence for the next 12 months had improved slightly but the outlook was still negative overall. Farmers told us that they expect to see profits squeezed again, as the exceptional weather continues to shape financial performance. With lower revenues and subsequent escalating cost base led to short-term cash flow challenges. Bank borrowing by the agricultural industry continues to set new records. The latest statistics from the Bank of England indicates that farm borrowing rose to £14.3 billion in the year to June 2013, an annual increase of 11% that can largely be attributed to higher working capital requirements rather than for on-farm investment projects. Given the deleterious situation famers have faced, it is not surprising that borrowing levels have increased of late. We expect this trend to continue in the foreseeable future as knock-on effect will take further 12 months or in some cases, two years to recover and return to 'normal circumstances'.

In terms of wages and ability to pay will be entirely dependent on how quickly farmers respond recover from the deleterious situation in which they have found themselves. Thus, the Commission should be mindful of the challenges the famers are likely to face in 2014 and beyond.

What has been the impact of the NMW? Has this impact varied, and if so how (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))?

As stated earlier, on the 25th June 2013, the Agricultural Wages Board (AWB), which set the minimum wage in agriculture under the Agriculture Wages Order (AWO) for almost a hundred years, officially abolished.

The NFU has consistently called for the abolition of the AWB, which became increasingly obsolete and generating an additional administrative burden for the sector. In particular, a one-size-fits-all approach on the industry was unquestionably out of step for a farming industry that has seen increasingly significant variation in fortunes across sectors and across regions.

AWB abolition is a progressive reform for the sector and is a welcome step to freeing up the industry to reward workers appropriately for the valuable work they do on farms. At last, the sector can now move on from the one-sized-fits-all approach that puts agriculture out-of-step with the rest of the UK workforce. Free from the order, this creates the opportunity for workers and employers to look more widely at the total employment package; to go beyond the basic hourly rate and consider skills, training, and salaries as negotiations between individual workers and individual businesses become the norm.

Given the chance, the NFU believe that the vast majority of farmers and growers are already fully capable of conducting fair and professional negotiations with staff on an individual basis. To facilitate negotiations between individual employers and workers, the NFU has already put in place a package of measures to ensure that farmers have access to advice and information on their obligations as employers under employment legislation and the conditions that might shape evolution in farm wages. To assist employers with this transition process, the NFU have committed to communicate a range of indicators of economic activity in the UK labour market that can be used as a guide for employers when conducting periodic pay reviews for workers.

These Key Labour Market Indicators include: Average Weekly Earnings (AWE), National Minimum Wage (NMW), Cost of Living (CPI – Consumer Price Index & RPI – Retail Price index) and Farm Business Profitability. These indicators were used regularly by the AWB in determining annual pay increases in the minimum rates of pay for agricultural workers, prior to the abolition of the AWB.

In terms of the NMW level, in the 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.

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. Analysis carried out on the 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.

It must be remembered that the reality of the “economic upturn” is tenuous in reality. Of course, a situation of solid and sustainable economic growth make desires for an increase in the NMW both economically legitimate and socially desirable, but the UK, in reality, has not yet reached such a fortuitous state of being. Basically, it is too early at this stage be confident as to have economic trends will continue. Therefore, the NFU recommends that prudent caution be the outlook concerning the factor of any increase in the National Minimum Wage. 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 and may impact on job prospects for younger workers. The NFU calls for balance in determining the NMW increase in 2013-14, recognising the need to price workers into jobs.

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

The earnings of young people saw relatively strong growth in 2012. However, the employability of young people has remained a lasting concern to governments in recent years. Whilst other age groups of the working population have seen a revival of fortune lately, there remains a persistent inertia concerning youth unemployment figures. The reasons for this situation are several, and include the generally-recognised feature of relatively poor skills and academic levels possessed by a significant number of young people, who are "Neither in Employment, Education or Training" (NEET). Indeed, the OECD report, released last week, that said young people in Britain are close to the bottom of native language skills and mathematical abilities of all the modern industrial economies, does little, initially, to enhance their image in the eyes of potential employers. Therefore, the factor of an increase in NMW for such people would be likely to make it be further detrimental for their employment prospects.

Such conditioning factors as the above, that exist in "the real-world economy", do make the ideas for an increase in a youth-related NMW appear to be based more upon benign thinking than rational economic considerations.

With the AWO abolished, we expect more young people to be employed in agriculture. This is because the AWO England and Wales was largely age neutral. The only concession to age was grade 1 below school leaving age (roughly 16 years old) which was discounted, but otherwise after school leaving age all workers received full rate. By contrast NMW has discounted rates for 16-17 year olds and 18-20 year olds, at substantial discounts to adult rates. The result will be that agriculture employers may be able to attract 16-20 years olds. This should price young workers into a job.

What has been the impact of the Apprentice Rate of the NMW?

Like any other sector, agriculture and horticulture needs new entrants. For the individual, an apprenticeship is a worthwhile investment for future affluence. Therefore, the NFU recognises that it is for the mutual advantage for both employer and apprentice to arrange affairs around this form of important practical training. The NFU believes that the abolition of AWB will help support this goal.

AWB was not a tool for incentivising groups such as apprenticeships. In practice, the attractiveness of the industry to the next generation of workers is not determined by the presence of minimum wages. The key factor to attracting new entrants into agriculture is the long term prospects of the industry. It is notable that agricultural employment increased past three years. There is similar success with apprenticeships take up. The previous AWB minimums have not proved an inducement for new entrants into the sector, and abolition of the AWB will not be viewed as a deterrent.

Apprentice rates under the NMW framework for 1st year are attractive for employers compared with the AWO. This will make apprentices more popular with employers, but may discourage young workers from becoming apprentices. An increase in apprenticeship offers is good for the industry, and also to address the high NEET figures for young people in the wider economy.

What is your view of the Commission's position that the current arrangements for the accommodation offset should be retained, and that it intends to recommend staged increases in the offset towards the value of the hourly adult rate of the NMW when economic circumstances mean the real value of the NMW is tending to rise?

The NFU would welcome staged increases in the value of the offset towards the value of the hourly adult rate of the NMW. However, were this to happen as a consequence of an increase in the real value of the NMW our support for this proposal would be balanced against our view that the bite of the NMW should not be increased. An increase in the offset towards the value of the hourly limit in terms of the present rates represents an increase of about 25%. An increase of this magnitude would reduce the subsidies paid on accommodation by employers, which might in turn encourage employers to increase the supply or the standards of the accommodation that they supply to their workers.

How far is there compliance with the NMW? Do particular groups experience problems with NMW compliance (for example apprentices or interns/others undertaking work experience)? Where there is non-compliance are there implications for the NMW rates, or other implications (for example for the quality and accessibility of official guidance on the NMW, or for the enforcement work of HMRC)?

The NFU objects to underpayments of the NMW being calculated at the rate of the latest NMW rates as applicable, and not at the appropriate historic rate of the NMW. 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. In the past the use of the AWO rate to calculate previous underpayments was more complex when compared to the NMW due to the numerous grades and categories of workers earning different minimum rates within the AWO.