Food and Drink Federation
FDF
Delivering Sustainable Growth

FDF'S EVIDENCE TO THE LOW PAY COMMISSION ON THE NATIONAL MINIMUM WAGE

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Comment by the Food and Drink Federation (FDF) on the National Minimum Wage Consultation.

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INTRODUCTION

The Food and Drink Federation (FDF) is the trade association for food and drink manufacturing. Food and drink is the largest manufacturing sector in the UK (accounting for 16% of the total manufacturing sector) turning over £76bn per annum, creating GVA of £20.9bn and employing up to 400,000 people.

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.

FDF's evidence in response to the latest consultation exercise by the LPC about the NMW is set out below.

General Comments

FDF recognises that relatively modest increases have been made to the NMW in recent years due to the difficult and uncertain economic climate and has welcomed this cautious approach which it hopes will continue to be maintained this year. Over the period since its introduction in April 1999, the NMW has been increased by the Government at a rate in excess of the rate of inflation or the level of pay settlements that have been reported by FDF members. However, FDF members are also aware of the acute pressure being felt by both employees and consumers due to the rising in the cost of living. Although the NMW has risen faster than inflation, prices still outstrip wages.

The NMW is having a direct impact on pay levels and the structure of remuneration for FDF members. In particular, some FDF members have reported that they have faced pressure 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'.

Whilst the NMW initially 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 usually labour intensive, often pay the NMW to many of their employees and therefore try to pass on any increase in their wage costs to FDF members.

Over recent years, FDF members have also reported considerable upwards 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. For example, recent changes to employment/pension regulations, such as the introduction of the Agency Worker Regulations and, for FDF's larger members, the recent introduction of auto-enrolment into a qualifying pension scheme, have together increased the administrative burdens and costs of many FDF members.

FDF therefore considers that it remains critically important for the future competitiveness of the UK food and drink manufacturing sector that the direct and indirect impact of the NMW on its members is minimised. FDF is therefore firmly of the view that, in what its members feel is still an uncertain and difficult economic climate, it is important for the LPC to continue to adopt a very cautious approach when making recommendations to the Government about future increases in the NMW. This will then help to minimise any possible adverse impact that these increases could have on business costs, competitiveness and employment levels.

Future Increases in the NMW

FDF re-iterates the view that it has expressed over recent years in its evidence to the LPC that an appropriate formula should be used to determine future increases in the NMW. This approach would give FDF members greater certainty about the direct and indirect impact that future increases in the NMW are likely to have on their business.

This would then make it easier for FDF members to plan and budget for any anticipated cost increases. It would also enable them to implement any changes that they feel would need to be made to their pay levels and/or remuneration structures in a more controlled and cost-effective manner.

FDF remains of the opinion that the formula that should be used by the LPC to determine future increases in 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 being 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.

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.

However, FDF recognises that there may sometimes be special circumstances when the LPC should modify the result of using our proposed formula for determining future increases in the NMW. These would include forthcoming legislative changes that are likely to have a disproportionate impact on those sectors of the economy and on those employers who pay the NMW to all or some of their employees.

An example of this legislative change is the staged introduction from October 2012 of the requirement for all employers to automatically enrol their eligible employees into a qualifying workplace pension arrangement, including that offered by the National Employment Savings Trust (NEST), with the employer being required to make a pension contribution for all employees who do not choose to opt out of, initially, 1% and, ultimately, 3% of a band of earnings. The LPC has previously modified its recommendation to the Government about future increases in the NMW when the statutory annual holiday entitlement was gradually increased from 20 to 28 days and FDF considers that a similar approach should be adopted to reflect the impact of the pension auto-enrolment legislation.

Apprentice rates of pay

Over the last couple of years, FDF members have significantly increased the number of apprentices that they have recruited to help achieve our ambition to grow our industry sustainably by 20% by 2020 and develop a skills 'pipeline' of highly qualified and well trained employees for the future. Apprenticeships allow our industry to respond to the increasing skills gap in the sector; address the problem of an ageing workforce; upskilling the current workforce; as well as making a contribution to tackling the problem of youth unemployment.

It is unlikely that any FDF members could or would use the Apprentice Rate of the NMW successfully as to compete with other sectors and support our apprentices our members offer Apprenticeship wages in excess of this amount.

The majority of FDF members therefore question whether it is still necessary to have NMW rates of pay for Apprentices in addition to the age-related levels of the NMW for those aged 16 to 20.

Faster increase in the NMW

As stated above, FDF members remain of the view that the NMW should be increased in line with a predetermined formula (movements in basic rates of pay across the economy) to provide them with greater certainty about its direct and indirect impact on their businesses. They would therefore be concerned if the Government was to try to accelerate future increases in the NMW for what are felt to be political reasons. Indeed, avoiding this type of Government intervention in determining future increases in the NMW is another reason why FDF members would prefer to have a pre-determined formula used to increase the NMW.

Since the NMW is now starting to have a direct impact on the rates of pay in many FDF members, any increase in the NMW that is greater than the relatively modest movement in basic rates of pay that has been seen amongst FDF members over recent years will inevitably increase their costs by putting pressure on them to maintain differentials as well as increase wage inflationary pressures in the economy.

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The UK Food and Drink Manufacturing Industry

The Food and Drink Federation (FDF) represents the food and drink manufacturing industry, the largest manufacturing sector in the UK, employing up to 400,000 people. The industry has an annual turnover of over £76bn accounting for 16% of the total manufacturing sector. Exports amount to almost £12bn of which 77% goes to EU members. The Industry buys two-thirds of all UK's agricultural produce.

The following Associations are members of the Food and Drink Federation:

ABIM	Association of Bakery Ingredient Manufacturers
ACFM	Association of Cereal Food Manufacturers
BCA	British Coffee Association
BOBMA	British Oats and Barley Millers Association
BSIA	British Starch Industry Association
BSNA	British Specialist Nutrition Association
CIMA	Cereal Ingredient Manufacturers' Association
EMMA	European Malt Product Manufacturers' Association
FA	Food Association
FOB	Federation of Bakers
FPA	Food Processors' Association
GPA	General Products Association
MSA	Margarine and Spreads Association
SB	Sugar Bureau
SMA	Salt Manufacturers' Association
SNACMA	Snack, Nut and Crisp Manufacturers' Association
SPA	Soya Protein Association
SSA	Seasoning and Spice Association
UKAMBY	UK Association of Manufacturers of Bakers' Yeast
UKHIA	UK Herbal Infusions Association
UKTC	UK Tea Council

Within FDF there are the following sectoral organisations:

BCCC	Biscuit, Cake, Chocolate and Confectionery Group
FF	Frozen Food Group
MG	Meat Group
ORG	Organic Group
SG	Seafood Group
VEG	Vegetarian (Meat-Free) Group
YOG	Yoghurt and Chilled Dessert Group