Executive summary

The NFU commissioned farm business consultants Andersons to produce an independent report assessing the financial implications of the National Living Wage (NLW) for UK horticultural businesses involved in fruit, vegetable, flower and plant production.

The report concludes that the unanticipated increase in employment costs resulting from the NLW, combined with the speed of implementation, has highly significant implications for

- the economics of horticultural crop production in the UK and the livelihoods of growers
- UK consumers of home-grown horticultural produce, and
- the balance between UK production and imports of fresh produce.

Horticultural crops have an unusually high requirement for seasonal labour, with labour cost often accounting for 35-60% of business turnover. As a result, the profitability of growing horticultural crops is highly sensitive to changes in wage costs.

The Andersons' report shows that over the next 5 years, forecasted increases in National Minimum Wage alone are equivalent to 47-58% of current business profit.

The additional cost of NLW over the same period is equivalent to 129-158% of current business profit. In other words, sometime between year 3 (2018-2019) and year 4 (2019-2020) of NLW being in place, the additional cost it imposes has the capacity to make horticultural businesses unprofitable.

A striking part of the assessment is how the impact of NLW is compounded by Employers National Insurance Contributions (NICs) – a business tax on the jobs they provide. Government proposed two measures to help mitigate the impacts of NLW – a change to Corporation Tax and a change to the Employment Allowance. The report shows these mitigation measures offer little benefit. In fact, these mitigations do not even offset the additional Employers NICs that result from introducing NLW.

If there were no Employers NICs at all for seasonal workers, the report shows businesses would still face very significant wage inflation as a result of NLW and an additional cost that, by 2020-21, would still be equivalent to 89-109% of current business profit.

Overall, the introduction of NLW is set to increase the cost of seasonal wages for horticultural businesses in the UK by an unprecedented 35% over the period 2016–2021, equivalent to an average annual rate of wage inflation of just under 7% per year, which is significantly more than the 2.47% annual rate of wage inflation under the National Minimum Wage for the preceding five years.

Despite significant productivity gains in horticulture, the underlying trend in business profits has been downward, due to significant price pressures combined with continuing increases in costs. Any measures that increase the rate of inflation of growers' main cost of production (i.e. employment costs) challenge the growing of some horticultural crops in the UK. One of the likely results is a reduction in supply. Andersons' concludes that the main consequences of this reduced supply could include

- an increase in imported produce, to replace domestic supply that has become too expensive for retailers as a result of reduced supply
- an increase in produce prices, raising the cost to consumers
- a reduction in consumer demand (and therefore consumption of fresh produce) in the face of rising prices.

The NFU supports the principle of a living wage for all workers in the agricultural industry and we are clear in our ambition that this industry is seen as one that offers good employment opportunities and exciting and rewarding careers.

However, the forecasted impacts of NLW on the horticultural businesses, as demonstrated by the Andersons' report and supported by case studies, are so significant that the question is 'how are businesses going to deal with the unanticipated costs of NLW and remain profitable?'

Growers will continue to work hard to increase productivity and reduce labour costs in their businesses, but in the short term this can only provide part of the solution – growers will also need the support of Government and the supply chain.

We are asking Government

- For there to be no requirement for Employers National Insurance contributions for seasonal workers.
- For there to be no pensions auto-enrolment requirement for seasonal workers, so they are not captured by this administratively burdensome process that delivers minimal value in pensions accrued.
- Government to further support investment in productive technology, automisation and mechanisation, and to support science funding for research and development on the same. This support needs to be made more accessible to smaller businesses.
- For Accommodation Offset to apply to National Living Wage, and the level of the offset to be increased, taking into account increases in rental prices in the wider accommodation market.
- For Government's ambition for NLW to reach 60% of median earnings by 2020 to be pushed back into the next session of Parliament to allow industry time to adapt to the unanticipated substantial increases in labour costs.
- To give the Low Pay Commission more powers to set minimum and living wage rates independently of government.
- For the timing of the NLW and National Minimum wage increases to be aligned in a cost neutral way, rather than having separate rises in April and October.
- To re-introduce a seasonal agricultural workers scheme accessible to agriculture student workers from anywhere in the world.

We are asking retailers and others in the supply chain to work with us and their suppliers to use the Anderson report to start discussions about how the costs of National Living Wage can be dealt with in the supply chain, so that going forward growers have certainty that a margin over costs will be achieved.