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ASSESSING THE FINANCIAL IMPLICATIONS OF THE NATIONAL LIVING WAGE FOR UK HORTICULTURE

A follow-up paper to the December 2015 Report

Prepared on behalf of:

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INTRODUCTION

This summary paper is a follow-up to the report prepared on behalf of the NFU, dated 4th December 2015:

"The National Living Wage – a report to assess the financial implications for UK horticulture".

The 2015 report was based on forecasts for the National Living Wage (NLW) rates anticipated by the Office for Budgetary Responsibility.

This paper provides an overview of the financial consequences of the introduction of the NLW for the growers of horticultural crops in the UK, in knowledge of the actual wage rate increases for 2016–2020.

Following the Executive Summary, section 2 sets out the changes in wage rates, both for the NLW between 2016 –2020 and for the five years 2011–2015 that preceded the introduction of the NLW.

The third section looks at the labour requirement for a number of horticultural crops and sets out some illustrative calculations of the financial consequences of increases in the costs of employment since the introduction of the NLW in 2016.

The paper concludes with a short commentary on the increases in employment costs over the five years 2016–2020 for the growers of horticultural crops in the UK, and their implications.

1. EXECUTIVE SUMMARY

The key points of this paper are as follows:

- In the five years that preceded the introduction of the National Living Wage (2011-2015) the hourly rate for seasonal workers increased from £5.80 per hour to £6.50 per hour – an increase of 12.1%.
- In the five years following the introduction of the National Living Wage (2016-2020) the hourly rate for seasonal workers increased from £6.50 per hour to £8.72 per hour – an increase of 34.2%.
- The 2016-2020 increase is equivalent to an additional payment of £2.66 per hour when holiday, pension and Employers' National Insurance payments are taken into account.
- There is extensive evidence to show that the actual increase to UK growers is considerably higher than this, with many incurring 40-50% rises in employment costs, arising from a reduction in the volume and quality of available labour, in large measure a consequence of Brexit and weakening Sterling.
- Whilst some horticultural crops are highly mechanised (e.g. vining peas and carrots), many have a significant requirement for labour, a large proportion of which is seasonal, in the period April–October. The unprecedented increases in wage rates in the period 2016-2020 – with few, if any, improvements in sale prices – will have required growers to make significant productivity gains in their operations if profits are to be maintained.
- Cost inflation has continued throughout this period in many categories of horticultural inputs, with the declining value of Sterling has been a particular issue – significant productivity gains have been required to fund more than just employment cost increases.
- Whilst mechanisation has allowed productivity gains for some crops (e.g. vining peas, potatoes and combinable crops), many horticultural crops have both a significant requirement for labour and limited opportunities for the mechanisation of either the crop husbandry or harvesting tasks for which this labour is required. These businesses are particularly exposed to high wage cost inflation.
- The opportunity for growers to introduce productivity gains varies widely between crops and whilst there have been some notable developments during the last five years in specific crops, significant changes are not typical.
- Significant productivity gains for the growers of perennial crops (e.g. tree fruit, bush fruit, asparagus) typically occur when the orchard/plantation is replaced which, with these longer production cycles (5-30 years), is infrequent. Consequently these growers are particularly exposed to a surge in cost inflation, as seen in employment costs between 2016-2020.
- A sample of ten "high labour" crops shows that an improvement in price – varying between 9-19% – would be required to offset only the increase in wage rates between 2016 and 2020.

2. CHANGES TO WAGE RATES 2011–2015 AND 2016-2020

The National Minimum Wage (NMW) was introduced in April 1999, with annual rates updated on 1st October. The rates that applied for the years 2011 –2015, and the percentage increase on the previous year, are as follows:

TABLE 1
NMW RATES 2011–2015

Year	£ per Hour	% Increase
2011	5.93	2.2
2012	6.08	2.5
2013	6.19	1.8
2014	6.31	1.9
2015	6.50	3.0

The National Living Wage (NLW) was introduced on 1st April 2016 for workers of 25 years and over and has been increased annually on that date. The rates for the years 2016 –2020, and the percentage increase on the previous year, are as follows:

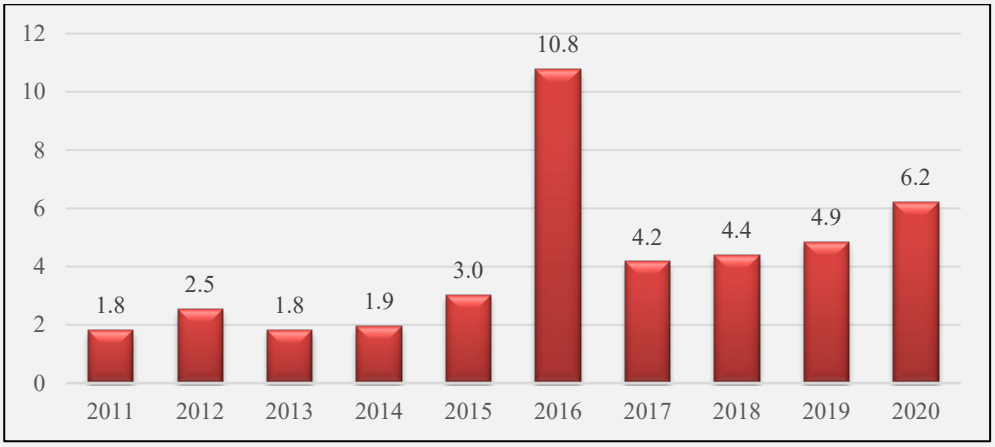
TABLE 2
NMW RATES 2016–2020

Year	£ per Hour	% Increase
2016	7.20	10.8*
2017	7.50	4.2
2018	7.83	4.4
2019	8.21	4.9
2020	8.72	6.2

* Includes October 2015 NMW + April 2016 NLW

In summary, the annual rates of wage inflation over the ten-year period 2011–2020 are as follows:

TABLE 3
ANNUAL WAGE INFLATION % 2011–2020



3. THE LABOUR REQUIREMENT FOR HORTICULTURAL CROPS & ILLUSTRATIONS OF EMPLOYMENT COST INFLATION 2016–2020

Whilst some horticultural crops are highly mechanised (e.g. vining peas and carrots), many have a significant requirement for labour, a large proportion of which is seasonal, in the period April–October.

The following table gives an indication of the labour requirement – in hours per tonne – for a number of these "high labour" horticultural crops:

TABLE 4

LABOUR REQUIREMENT – ILLUSTRATION CROPS

Crop	Hours/Tonne Indicative Range	Hours/Tonne Indicative Median
Cauliflower	18-26	22
Broccoli	20-28	24
Parsnip	18-24	21
Leeks	35-55	45
Asparagus	250-350	300
Lettuce	32-44	38
Dessert Apple	25-35	30
Pears	30-40	35
Cherries	150-210	180
Strawberry	120-160	140
Raspberry	300-400	350
Blueberry	400-600	500

These figures can be used to prepare an indicative calculation of the financial consequences of increased employment costs since the introduction of the NLW in 2016.

The hourly rates for the 2015 and 2020 production years are set out in the following table. For the purposes of the calculation it has been assumed that the combined requirement for holiday pay, pension and Employer's National insurance contributions adds 20% to the hourly rate.

The figures are as follows:

TABLE 5

INCREASES IN EMPLOYMENT COSTS 2015 vs. 2020

	2015 (NMW)	2020 (NLW)
Hourly rate £	6.50	8.72
Holiday, Pension, Emp NI (@20%)	1.30	1.74
Total £/Hour	**7.80**	**10.46**

The increase in the hourly rate between the 2015 rate and that in 2020 is £2.66 – or 34.2%. This compares with an increase for the period 2010-2015 of 12.1%.

It should be noted that in the above calculation the NLW rate, for those of 25 years and over, has been used. For the purpose of the calculations that follow it has been assumed that this rate applies to all employees, for the reasons noted in the 2015 review:
"separate rates of pay for under/over 25 year olds would be impractical and counter-productive in motivating employees"

Subsequent experience has shown this to be the case. The proportion of seasonal workers on UK farms under 25 years old has also been declining. In addition it should be noted that multiple retailer and Ethical Trading Initiative audits require that all workers are paid at the same rate, regardless of age.

Applying the 2016–2020 increase of £2.66 per hour to the median labour requirement for the illustration crops – set out in Table 4 above – shows increased employment costs as follows:

TABLE 6

LABOUR COST INCREASES 2016–2020

ILLUSTRATION CROPS

Crop	Hours/Tonne Median	2016-20 Increase £ per Tonne	2016-20 Increase Pence per Kilo
Cauliflower	20	53	5.3
Broccoli	22	58	5.8
Parsnip	18	48	4.8
Leeks	40	106	10.6
Asparagus	300	798	79.8
Lettuce	40	106	10.6
Dessert Apple	30	80	8.0
Pears	35	93	9.3
Cherries	180	479	47.9
Strawberry	140	372	37.2
Raspberry	350	931	93.1
Blueberry	500	1,330	133.0

It should be noted that these figures are theoretical and do not take account of the additional costs incurred in 2020 by growers as a result of Covid 19. An initial assessment of those cost increases is set out in the June 2020 report:

"The Potential Implications of Covid 19 for the Costs of Production of UK Fruit and Vegetables in 2020".

To better understand the consequences of these employment cost increases on the potential financial viability of these crops – excluding the additional costs of Covid 19 – the following table calculates the proportion of an illustration 2020 crop sale price that is required to offset only the increase (i.e. £2.66 per hour) in employment costs between 2015 and 2020.

The figures are as follows:

TABLE 7

EMPLOYMENT COST INCREASES 2016-2020

% ILLUSTRATION MEDIAN SALE PRICE

Crop	2016-20 Increase £ per Tonne	2016-20 Increase as % Illustration Median Sale Price
Cauliflower	53	10
Broccoli	58	9
Parsnip	48	14
Leeks	106	13
Asparagus	798	12
Lettuce	101	10
Dessert Apple	80	11
Pears	93	10
Cherries	479	12
Strawberry	372	11
Raspberry	931	13
Blueberry	1,330	19

The implications of these increases are considered in the following section.

4. EMPLOYMENT COST INFLATION 2016–2020 – A SHORT COMMENTARY

Sale prices, costs and productivity

Between 2016-2020 the sale prices received by UK growers of horticultural crops have been largely static, consistent with the long-term trend. As a result, with increasing costs, growers will have needed to make productivity gains in their operations if profits are to be maintained.

This paper focuses on increases in employment costs, as the most significant cost for many UK growers. However, cost inflation has continued throughout this period in many categories of horticultural inputs. In this respect the declining value of Sterling has been a particular issue, as many inputs are sourced from within the EU (e.g. plants, trees, crop supports, machinery). The point is that productivity gains are required to fund more than just employment cost increases.

The opportunity for growers to introduce productivity gains varies widely between crops. Whilst there have been some notable developments during the last five years (the development of Long Cane raspberry production would be an example), such significant changes are not typical, with grower emphasis being on refining operating techniques.

In practice the greatest opportunities for productivity gains arise when a grower changes crop/site/variety/growing system.

This raises a particular issue for those growing perennial (or multiannual) crops, whose production cycles are for more than a year and, in some cases, for 20 years or longer (e.g. pears, cider apples).

Examples of perennial crops include tree fruit (e.g. apples, pears, cherries), bush fruit (e.g. blueberries, blackcurrants), asparagus and soft fruit (e.g. strawberries, raspberries).

Actual employment cost inflation

The increase in the statutory wage rate for seasonal workers between the 2015 and 2020 seasons has been just over 34%.

However, there is extensive evidence to show that the actual increase to UK growers is considerably higher than this, with many incurring 40-50% rises in employment costs. The key reason for these additional increases has come from productivity losses, arising from a reduction in the volume and quality of available labour, in large measure a consequence of Brexit and weakening Sterling.

Inflation at this level is having a very serious impact on all those employing seasonal labour and, in particular, those growing perennial crops who have limited (if any) opportunities to make productivity gains until the end of the existing crop's life.

The capacity of horticultural crops to absorb cost inflation

Cost inflation is a fact of life for many businesses operating in a western economy, with the most significant increases typically seen in the cost of employment. Continuing financial viability has relied on the opportunity to replace labour with capital, for both farming and non-farming businesses.

As already noted, the replacement of labour with capital (e.g. mechanised harvesting) has been possible with some horticultural crops such as vining peas and carrots. However, there are many horticultural crops that have both a significant requirement for labour and limited opportunities for the mechanisation of either the crop husbandry or harvesting tasks for which this labour is required.

The following comparison between a highly mechanised crop such as wheat (the most widely crop grown in the UK, by area) and a strawberry crop shows their very different reliance on labour:

TABLE 8

COMPARISON OF WHEAT / STRAWBERRY LABOUR COSTS

Crop	Labour £/Hectare	Median Labour as % Sales
Wheat	80 – 150	7
Strawberry	40,000 – 70,000	45

The "high labour" horticultural crops – of which some, but by no means all, are included in Tables 6 and 7 – are very exposed to wage cost inflation and this is particularly so for the perennial crops, where productivity gains during the extended life of the crop are limited.

The implications of employment cost increases 2016–2020

Table 7 provides an indication of the proportion of the sale price, for a number of crops, that would be required to offset the increase in the hourly wage rate between 2015 and 2020 (N.B. these calculations take no account of either declining worker availability/productivity or the costs of Covid 19 in 2020).

The results indicate a range of between 9 and 19%. In 2015 very few businesses were achieving profits as a percentage of turnover at these levels and with static (or reducing) sale prices since that time, the continuing viability of a number of crops has relied on improvements in productivity. In some cases this has been possible, but in others it has not, with production now either marginal or loss-making.

At a time when the production of UK fresh fruit and vegetables has never been more important, there is now a real threat to home-grown supply as a result of unprecedented wage cost inflation over the last five years. In many cases this issue can now only be addressed through changes to sale price.