ASSESSING THE IMPACT OF THE NATIONAL LIVING WAGE ON HORTICULTURAL BUSINESSES

NFU Horticulture & Potatoes Board
February 2016
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.

The age profile of seasonal workforces has changed considerably in recent years, such that currently between 60-80% of all workers are aged 25 and over.

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

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Forecasted National Minimum Wage, National Living Wage and inflation rates 2016-2020

Source: Andersons, NFU & OBR

EXECUTIVE SUMMARY
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, automation 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 NLW, 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 THE SUPPLY CHAIN

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 NLW can be dealt with in the supply chain, so that going forward growers have certainty that a margin over costs will be achieved.
In the Summer Budget 2015 the Chancellor of the Exchequer announced the introduction of a National Living Wage (NLW) to start in April 2016 and apply to workers aged 25 and over. The NLW is set to be introduced at an initial rate of £7.20 per hour (50p per hour higher than the current National Minimum Wage) and expected to increase to 60% of median UK earnings by 2020. Office for Budget Responsibility projections predict this would mean a NLW of around £9.35 per hour by 2020.

The NLW announcement was completely unexpected. There was no consultation with industry about its introduction or starting level. Going forward, it is expected that the Low Pay Commission will be involved in consulting and making recommendations on future rises.

While the NLW brings unexpected and hugely significant challenges, the National Farmers’ Union is clear in its support 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. The Low Pay Commission has reported that just 1% of low pay jobs fall within agriculture, so this is not a low-paying industry.

We also recognise that NLW is going to have significant impacts on many other sectors of the economy and some will be in a similar position to agriculture, so we do not see that this industry needs to be treated as an exception.

Our questions around NLW are not about whether or not it should be implemented, but instead are about the unexpected speed of implementation and how the additional costs it brings are going to be afforded and accommodated by the farming industry and its supply chain in the short term.

Labour is one of the main cost components for all agricultural businesses and so all sectors of agriculture will be impacted to some extent. There is wide concern that the introduction of a NLW, as well as increasing direct labour costs, will also increase the cost of inputs and services the industry depends on. However, the most significant impact will be on direct labour costs and this will be greatest in the sectors where labour is the key input, particularly the horticultural sector where seasonal workers are relied on to hand-harvest, grade and pack crops.

The reason NLW is such a huge challenge for horticultural businesses is because they are relatively small in terms of turnover, but they employ high numbers of staff during the year. Typically, labour cost accounts for 35-60% of turnover and can be £20,000 - £50,000 per hectare for the most labour-intensive crops. This makes the financial performance of horticultural crops highly sensitive to unexpected changes in wage costs.

Across the hugely broad range of horticultural crops – fruit, vegetables, flowers and plants – the trends in total value of UK products have generally shown some increase over the last 10 years. However, significant falls in production areas have resulted in overall income falling.

So despite any increases in values, farm profitability, impacted by increasing input costs and downward price pressure, remains low. Profit levels in the horticultural sector have declined to a range typically equivalent to 2-8% of turnover – levels not well matched by the high levels of risk and high costs of production associated with many horticultural crops. Within the horticultural sector, 5% is regarded as a good profit margin. The existing pressures within the industry are so intense that many businesses will be operating at a 2% profit level. Trends in horticultural farm business income have shown a steady decline over the last 10 years and official figures show that in 2014/15 20% of horticultural businesses failed to make a profit.

The combination of relatively low turnover, high numbers of seasonal workers and low profitability combine to make horticultural businesses very exposed to increases in labour costs.

This challenge is increased by the speed and rate of implementation of the NLW. The announcement has given businesses just nine months to prepare, which given that deals with commercial customers will already have been done 12 or 18 months in advance, is completely inadequate. Businesses would have reasonably planned the future using wage inflation rates reflecting the last five years, at about 2-2.5%. They are now faced with a NLW that inflates wages at an average rate of 6.89% over the next five years.

There have been significant annual increases in National Minimum Wage rates in the past, for example 10.81% in 2001, 7.14% in 2003 and 7.78% in 2004. However, the scale of increase faced under NLW is greater than any 5-year period of increases under National Minimum Wage and unprecedented within the last 15 years.

This unprecedented increase in labour cost is hitting horticultural businesses at a time when then are already experiencing some of the toughest times in the marketplace. Fierce competition between major retailers to hold onto market share means intense downward pressure on price that many growers view grimly as a race to the bottom.
LABOUR COST IS A MAJOR COST COMPONENT FOR HORTICULTURE ENTERPRISES

AREA OF LAND USED FOR GROWING OUTDOOR VEGETABLES 2013

-7,000ha

TRENDS IN HORTICULTURE FARM BUSINESS INCOME

Source: Farm Business Survey (FBS)

Source: Defra and FBS
Guy is a root veg and pumpkin grower in Yorkshire, Lancashire and Scotland, producing more than 50,000 tonnes of carrots each year.

In response we are looking at more innovation, more automation, and an overtime ban that means employing more people for less hours. As a packer of carrots, we’re also looking at maybe increasing imports.

We are looking at every form of automation to reduce man hours. Sadly most of this kit does not come from the UK, and so like any produce imports it will also increase the trade deficit.

Overall then it looks like our workers will be taking home less pay, and our investment in automation will be benefitting engineers and equipment manufacturers outside the UK.

I think we need more support on investment in automation and we need help on Employers NI that applies to all seasonal workers, not just 4 as offered by Government.

Our business is year round rather than seasonal, but we do have peaks like Christmas. The impact of NLW will be huge, with an uplift in wages of over £250,000 in year 1 alone.

Over the last five years we’ve improved productivity and lowered costs by investing in automation of packing lines; improving fruit quality (to reduce grading and packing time); installing average weight systems; soil-less growing of soft fruit to reduce picking time, reduce the demand for crop protection chemicals and fertilizer, and increase yield; solar panels; more biological control; and drip and trickle irrigation across the whole farm.

It’s hard to see what more we can do – we’ll cut overtime right down and try to look at more mechanisation in the packhouse and whether we can further improve harvesting efficiency with field layout to minimise walking and down time. Ultimately we have to reduce the numbers of people we employ.

Until we see the full impact of NLW on profitability, we are not planting any more crops. Strawberry profitability looks very badly affected by this new wage rate.

To help offset the increased wage bill resulting from NLW I’d like to see a per person Employers NI allowance, and to receive some price rises from our customers.
WHAT’S AT STAKE?

The horticulture and potatoes sector is one of the most diverse in British agriculture, with around 4000 growers in Britain together producing over 9 million tonnes and well over 300 types of fruit, vegetable, potato, flowers and plants. Nationally, the value of the horticulture sector in terms of its contribution to UK GDP is £3 billion.

The horticulture sector employs around 37,000 people in England on a permanent basis and around a further 40,000 seasonal workers every year.

With population growth, the continued growth in purchases of convenience, pre-packed and processed fruit and vegetable products, and in the value of the food service sector, there is a growing demand for fruit, vegetables, flowers and plants. For British growers to take advantage of this opportunity and reverse the domination of imports, their businesses need to be resilient and able to adapt to change. The cost of implementing NLW significantly threatens this resilience and ability, and puts at stake a supply of British-grown fruit and vegetables that are grown to the highest crop assurance standards in the world.

THE RISKS

While there is strong demand from consumers for British-grown seasonal horticultural produce, the industry faces stiff competition from imports. Growers are describing the current trading environment as a battlefield, with themselves on the weaker side. Consequently, imports of fruit and vegetables on supermarket shelves are now at record levels as British growers are forced to cut back on home production.

There is a discussion to be had about how increased costs are passed on within the supply chain. So in the short term the likely result will be to export production, further decreasing our self-sufficiency in fruit, vegetables, flowers and plants, and adding to the UK’s trade deficit.

The likelihood that the NLW will result in the production of fruit, vegetables flowers and plants being increasingly moved out of the UK is increased by the fact the pound remains steadily strong against the euro, and by the fact that minimum wage rates in the majority of EU countries are lower than the UK.

When NLW is introduced in April 2016, this minimum wage rate will be the second highest in Europe. By country, the UK imports most fruit and vegetables from Spain.
IMPORTS OF FRESH FRUITS IN 2014 BY SOURCE COUNTRY

- Spain: 20%
- Netherlands: 39%
- Irish Republic: 3%
- France: 4%
- Poland: 4%
- Others: 30%

Source: Defra/HMRC

IMPORTS OF FRESH VEGETABLES IN 2014 BY SOURCE COUNTRY

- Spain: 34%
- Netherlands: 17%
- South Africa: 9%
- Colombia: 9%
- Netherlands: 9%
- Dominican Rep.: 7%
- France: 7%
- Ecuador: 5%
- Brazil: 5%
- Others: 4%

Source: Defra/HMRC
Currently, the minimum hourly wage rate in Spain is €3.93, compared to €9.03 (£6.70) in the UK. In April, NLW will increase this UK rate to €9.70 (£7.20). The attractiveness of lower wages in other EU countries may be offset to some extent by the higher tax wedge in those countries (e.g. higher employer tax costs). However, there is a very clear threat that the production of labour-intensive horticultural crops will be increasingly done outside of the UK in countries with lower labour costs.

In addition to the impacts of NLW, there are a range of other employment policies and legislation, already bearing down or due to bear down on labour costs within horticulture. While it is clear these will exacerbate the impacts of the NLW for growers, they have not been factored into the cost impacts assessed by the Andersons report. These factors include:

- The apprenticeship levy, to be introduced from April 2017, will be set at 0.5% of the salary bill and apply to businesses with pay bills in excess of £3 million. This will unduly capture larger horticultural businesses because of the high numbers of seasonal workers they employ. The fair way forward would be for the ‘seasonal labour’ element of the salary bill to be excluded when calculating whether or not a levy should apply.

- In November 2014, the Employment Appeals Tribunal made a ruling in the case of Bear Scotland v Fulton that covers how holiday pay should be calculated when non-guaranteed overtime is worked. This has the potential to increase costs on growers’ businesses, particularly where employees request holiday after peak seasonal activity such as harvest.

- NLW will coincide with pension auto-enrolment contributions. Increases in wages will increase Pensions contributions, and further increases in contributions are proposed to come into effect in 2018 when the required minimum employer contributions increase from 1% to 2%, with a further increase to 3% from April 2019 – all adding to employment costs.

THE TOP 10 EU COUNTRIES WITH NATIONAL MINIMUM WAGE RATES (USING OCTOBER 2015 FIGURES AND EXCHANGE RATES)

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<th>EU Member State</th>
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The NFU has commissioned farm business consultants Andersons to produce an independent report that looks at the potential financial implications of the NLW for UK horticulture.

In preparing for the Summer Budget 2015, the Office for Budget Responsibility estimated the cost to business of the NLW will amount to just 1% of corporate profits. ‘The Andersons’ report (included in full in the annex at the end of this report) shows the cost of NLW to horticultural businesses has the capacity to completely eliminate all business profit.

The Andersons’ report looks at three horticultural business models, varying in scale in terms of the number of seasonal workers they employ (80, 250 and 450 workers) and turnover (£1.25 million, £4.25 million and £9 million median turnover). Assuming a median profit level at 5% of turnover, the work shows for the 3 models that over the next 5 years, forecasted increases in National Minimum Wage are equivalent to 47-58% of current business profit.

The additional cost of NLW over that same period is equivalent to 129 - 158% of current business profit. In other words, somewhere between year 3 (2018/2019) and year 4 (2019/20) of NLW being in place, the additional cost of it wipes out all business profit.

One of the striking parts of the assessment of the impacts of NLW is how Employers National Insurance – a business tax on the jobs they provide - compounds the impact of wage rises.

The report shows that the forecasted additional costs of Employers NICs alone arising from the introduction of NLW is equivalent to 11-15% of current businesses profits. This additional tax on employers resulting from the implementation of NLW has nothing to do with providing better wages for staff. The financial benefits of the mitigation measures around Corporation Tax and Employment Allowance, as proposed in the Summer Budget 2015, are an order of magnitude less than the increase in Employers NI costs that business will have to pay as a result of the introduction of NLW, i.e. there is a net increase in total Employer taxation.

If there were no Employers National Insurance contributions at all, businesses would still face very significant wage inflation as a result of NLW – the report shows that, by 2020-21, this cost would still be equivalent to 89-109% of current business profit (see figures on page 12).

In summary, the introduction of the NLW will increase the cost of seasonal wages for the growers of horticultural crops in the UK by some 35% over the period 2016–2021, equivalent to an average annual rate of wage inflation of just under 7% per year, significantly in excess of the 2.47% annual rate of wage inflation under the Minimum Wage for the preceding five years.

Even the longer term comparison shows the NLW increases to be unprecedented – the average annual increase under the Minimum Wage between its introduction in 1999 and October 2015 was just under 4% (with a small number of high increase years).

The Andersons’ report highlights that despite significant productivity gains in horticulture, arising from being at the forefront of technical developments in the UK farming industry, the underlying trend in horticultural business profits has been downward, as continuing increases in employment costs have exceeded productivity gains.

Any measures increasing the rate of inflation of growers’ main cost of production (i.e. cost of employment) will challenge the growing of some horticultural crops in the UK; one of the likely results is a reduction in supply.

The report highlights 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

Andersons concludes by saying that, with the costs of employment often representing some half of all costs in many horticultural businesses, this radical and unanticipated increase in employment costs, arising from the NLW, 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;
- the balance between UK production and imports of fresh produce.
BUSINESS MODEL 1: IMPACT OF NLW ON ANNUAL PROFIT AND LOSS (CURRENT PROFIT @5% TURNOVER = £62,500)

Source: Andersons & NFU

BUSINESS MODEL 2: IMPACT OF NLW ON ANNUAL PROFIT AND LOSS (CURRENT PROFIT @5% TURNOVER = £212,500)

Source: Andersons & NFU

BUSINESS MODEL 3: IMPACT OF NLW ON ANNUAL PROFIT AND LOSS (CURRENT PROFIT @5% TURNOVER = £450,000)

Source: Andersons & NFU
BUSINESS MODEL 1: IMPACT OF NIL EMPLOYERS NICs ON ANNUAL PROFIT AND LOSS

Source: Andersons & NFU

BUSINESS MODEL 2: IMPACT OF NIL EMPLOYERS NICs ON ANNUAL PROFIT AND LOSS

Source: Andersons & NFU

BUSINESS MODEL 3: IMPACT OF NIL EMPLOYERS NICs ON ANNUAL PROFIT AND LOSS

Source: Andersons & NFU
Ali farms in a family partnership in Worcestershire, growing 100 acres of hops, 40 acres of cider apples and 60 acres of dessert apples. The business employs around 70 seasonal workers each year for approximately 10 weeks.

Like many other fruit and vegetable growers, we are reliant on seasonal labour to harvest our crops but also to undertake tasks for significant periods during the growing season such as hop stringing, hop training, apple thinning and new planting.

We are closest to Business Model 1 in the Andersons’ report and although our labour profile is smaller, the impacts outlined are indicative of those in our own business.

The impact of the unexpected 7% annual inflation in wages is very significant (versus the 2.5% we were anticipating). Businesses like ours plan for the long term and we hold long term contracts (3–5 years) that are now going to have to be re-negotiated - we expect this to be extremely difficult in the current trading climate.

We will have to find efficiencies but are concerned that we will not be able to mitigate the impact of the new wage inflation. We are reviewing our in-field grading protocols for the apple harvest; revisiting the mix of piecework and hourly rates; liaising with the apple packhouse to look at new grading and packing methods; and reviewing the ‘sale of whole bin’ strategies.

On hops we have just introduced a new automatic hop baler that reduces headcount by 2 and we are now reviewing the harvest and picking/drying headcount to see if any further automation is possible.

Nick is Farms Director at Laurence J Betts Ltd, which grows whole head lettuces and baby leaf salads on 500 hectares of land in and around the Maidstone area of Kent.

At height of production they employ around 105 seasonal workers, dropping to around 12 in winter. They employ about 60 full time staff across the calendar year.

Hand harvesting lettuce is hard work. Without seasonal workers to do this we would have no business. It really is that simple.

We fall between the Andersons’ report Business model 1 and 2, employing seasonal workers for around 3120 weeks each year. Our season is much longer than Business model 1 - we are at full production for around 25 weeks. NLW will increase our labour bill by somewhere between £60,000 – £70,000 year on year. We will need a 5% increase in our sales price over the period just to cover the impact of the NLW.

In response to NLW we will focus even harder on mechanisation - moving away from the more labour intensive crop lines, like iceberg lettuce, towards the less labour intensive – more mechanised- crop lines, like baby leaves.

To make NLW affordable we need the increased cost to be reflected in our sales price.
Horticulture has been at the forefront of technical developments in the UK farming industry. With labour being the single greatest cost within horticultural businesses, the industry has long sought ways of increasing productivity and labour-use efficiency and decreasing the level of its overall reliance on hand labour.

In soft fruit growing for example, while the area of production has fallen significantly in the last 20 years, investment in the use of polytunnels has increased productivity and value of the crop by 296%, and investment in table-top growing has significantly increased labour-use efficiency. In tree fruit production, the increased use of dwarf rootstocks, supporting structures and higher density planting has delivered significant increases in productivity in the last decade – trees once planted at 11 metres apart are now planted at 0.8 metres apart.

However, many horticultural crops, such as soft fruit, tree fruit, flowers, leafy salads and vegetables, are still reliant on hand harvesting. Around the world, people are looking at developing ways of automating processes reliant on hand labour. Widespread mechanisation of harvesting or ‘robot picking’ for these crops is still 10+ years away. In any case, a move towards increased mechanisation is only possible if businesses have the ability to invest in the latest technology and to be able to do that they need to be profitable.

There are opportunities for mechanisation within some sectors of the industry. Harvesting of some crops is already mechanised, e.g. root vegetables, but these crops often still have a significant labour requirement at the grading and packing end of the process.

Anecdotal information we have received has outlined that businesses in the sector will look to adopt more productive technology and mechanise wherever they can in order to reduce labour costs and change their employment practices and strategy to help remain viable and competitive. However opportunities to do this are limited and in the short term businesses in the sector may respond to the NLW by reducing labour used, by reducing the number of employees and/or reducing the hours worked by employees.
Robert is finance director at Tangmere Airfield Nurseries Ltd – a 30 hectare horticultural glasshouse business growing sweet peppers in West Sussex for the UK major multiples.

"During the course of a normal year we employ around 200 workers every week from June through to the beginning of November. We also have a 4 week spell during December and January, our crop turnaround period, when we require similar numbers of seasonal workers.

Our business needs a large amount of relatively low-skilled work during the core of our harvesting season. It would simply not be possible to harvest and pack the volumes produced without the ability to use this level of seasonal labour.

While our business is larger than those in the Andersons’ report models, the scale of the impact is equally detrimental and we’ve identified it represents a huge risk to our ability to remain profitable beyond 2019.

We are not in competition with other UK businesses, as the UK is way off being self-sufficient in fresh produce. Tangmere is in competition with imported produce from countries like Spain, where the cost of labour is already below our National Minimum Wage. With NLW added on top, we are incredibly concerned the UK and our business will simply be priced out of the market by cheaper European imports.

In terms of changes we could make to limit the effects of NLW, reducing staff numbers to the extent required is not a viable option, as at the end of the day we still have a crop to harvest and pack.

The obvious answer would be for our business to pass on the cost increases to the consumer in price rises. However our customers, the major multiples, also face increases in their own staff costs due to NLW. Additionally our customers are waging an almighty battle on prices and will find it incredibly difficult to pass any of these cost increases on to the consumer. Our customers are most likely going to be driven to mainland Europe, where they will be able to buy it more cheaply and thereby maintain their retail prices.

Another solution for Tangmere is R&D and innovation to try and remove other costs to maintain our margins. We are incredibly proud to say that Tangmere is already a highly innovative company - we’ve reinvested millions over the past 10 years to have the most efficient growing techniques, packing systems, processes and procedures, in an attempt to stop the profit margin erosion that has become common place in our industry. It’s hard to see where an innovation capable of offsetting NLW will come from.

The social economic argument for the NLW is that the whole of the UK absorbs relatively small price increases to ensure that people quite rightly have access to a living wage. So for the NLW to be a success, it must result in price increases that all consumers are willing and able to pay.

However, our concern is the current proposals are likely to have the effect of just ruining our business as we will not be able to secure price increases. So ultimately the current proposals will result in significant job losses and even higher levels of imported food.

We compete at a European level – unless NLW becomes a Europe wide requirement, the UK risks simply handing over a competitive advantage to our European cousins."
Peter Hull, Lincolnshire - Garden Plants grower

Peter runs a 20 acre Spalding based nursery with his brother Chris. They grow a variety of garden plants - bedding, alpines, hardy nursery stock, and produce planted containers and hanging baskets. They employ up to 30 seasonal workers at busy times of the year.

With our seasonal labour requirement totalling about 1000 weeks a year, the impacts of NLW on our business are similar to the Andersons’ report Business model 1.

In response to NLW we will be looking at some automation where possible, but it is challenging. Due to the nature of our business we handle a vast range of products that we use to create mixed planted containers and hanging baskets – this doesn’t lend itself to automation.

We are told by the Government that our customers will pay more to cover the additional costs, but we are finding a lot of resistance to price increases next year and this is only going to get harder.

Most of our business (over 65% of turnover) is done between just March and June - so we rely heavily on seasonal workers.

In the Summer Budget 2015 the Chancellor said ‘the best way to support working people is to let them keep more of the money they earn’. It follows that this should also be the best way to support British businesses to ensure they have a sustainable future.
OUR ASKS

The forecasted impacts of National Living Wage on the horticultural industry, as demonstrated by the Anderson’s report and backed-up by case studies and discussions with growers across the country, are so significant that the question is ‘how are businesses going to deal with the costs of National Living Wage and remain profitable?’

As already discussed, growers will be continuing to work hard to increase productivity and reduce labour costs in their businesses, where opportunities and ability to invest exist. But this can only provide part of the solution – growers will also need the support of Government and the supply chain.

OUR ASKS OF GOVERNMENT

In the Summer Budget 2015 the Chancellor said ‘The best way to support working people is to let them keep more of the money they earn’. It follows that this should also be the best way to support British businesses to ensure they have a sustainable future.

Alongside the announcement of the National Living Wage, Government announced mitigation measures on Employment Allowance and Corporation tax that were clearly meant to help offset some of the increased cost for businesses resulting from the National Living Wage.

While the Andersons report has shown that these mitigation measures offer little for horticultural businesses, Government has clearly established the principle that Employers NICs can be used as a mechanism to offset the additional costs of National Living Wage. In fact, Government promoted the mitigation measure as being a measure that enabled businesses to employ some workers ‘without paying any NICs’.

WE ASK

- 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 business.
- 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.

OUR ASKS OF THE SUPPLY CHAIN

The Anderson’s report provides independent evidence for grower’s commercial customers about the impacts of National Living Wage, so they are clear about the scale of the impacts on grower’s businesses.

We ask retailers and others in the supply chain to work with us and their suppliers to use this information 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.