

ANDERSONS MIDLANDS
PARSONAGE FARM
EARDISLEY
HEREFORD
HR3 6LX
TELEPHONE: 01544 327746

THE NATIONAL LIVING WAGE

**A REPORT TO ASSESS THE POTENTIAL
FINANCIAL IMPLICATIONS FOR UK HORTICULTURE**

Prepared on behalf of:

The National Farmers Union

Agriculture House

Stoneleigh

Warwickshire

CV8 2TZ

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Partners W S GRAFF-BAKER : M I HOUGHTON : E J PELHAM

Also at Leicester and Salisbury

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CONTENTS

	Page No.
1. INTRODUCTION	3–4
1.1 The Instruction	
1.2 Andersons Midlands	
1.3 Objectives of the Report	
1.4 Summary of Report Content	
2. THE MINIMUM WAGE	5–7
2.1 Increases October 2011–October 2015	
2.2 Forecast Minimum Wage Rate Increases October 2016–October 2020	
2.3 Calculation of 40-Hour Weekly Minimum Wage April 2016–March 2021	
3. THE NATIONAL LIVING WAGE	8–9
3.1 Introduction	
3.2 Calculation of 40-Hour Weekly National Living Wage April 2016–March 2021	
4. A COMPARISON OF FORECAST FUTURE MINIMUM WAGE/NATIONAL LIVING WAGE LEVELS	10–11
4.1 Calculation of Differences between Forecast Figures	
4.2 Distribution of Increase between Employee Wages / Employers’ National Insurance Contributions	
5. THE FORECAST CONSEQUENCES OF ADDITIONAL WAGE INFLATION FOR HORTICULTURAL BUSINESSES	12 –17
5.1 Labour Employment in UK Horticulture	
5.2 Method of Assessment	
5.3 The Proportion of Workers of 25 Years of Age and Over	
5.4 A Benchmark against which to Assess the Financial Effect of National Living Wage Inflation	
5.5 Measurement of National Living Wage Inflation 2016–2021	
6. FINANCIAL ASSESSMENT OF PROPOSED MITIGATION IN CORPORATION TAX / EMPLOYMENT ALLOWANCE	18–22
6.1 The Proposals for Changes to Corporation Tax and Employment Allowance	
6.2 Measurement of National Living Wage Employers NI Only Increases 2016–2021	
6.3 Measurement of National Living Wage Employee Wages Only Increases 2016–2021	
7. EXECUTIVE SUMMARY	23–26

APPENDICES

I Andersons Midlands service areas

II Curriculum Vitae – E.J. Pelham

LIST OF TABLES

Table 1 – Minimum Wage Rate Increases 2011–2015

Table 2 – Forecast Minimum Wage Rates 2016 – 2021

Table 3 – Minimum Wage Average 40-hour Weekly Wage Forecasts April 2016–March 2021

Table 4 – Forecast National Living Wage Rates 2016 – 2021

Table 5 – National Living Wage Average 40-hour Weekly Wage Forecasts April 2016–
March 2021

Table 6 – Differences between 40-Hour Weekly Minimum Wage / National Living Wage Forecasts
April 2016–March 2021

Table 7 – Distribution of National Living Wage Increase between Employee Wages / Employer
National Insurance Contributions April 2016–March 2021

Table 8 – Business Models Profits @ 5% of Turnover

Table 9 – Business Model 1 – Differences between Weekly Minimum Wage/National Living
Wage 2016–2021

Table 10 – Business Model 2 – Differences between Weekly Minimum Wage/National Living
Wage 2016–2021

Table 11 – Business Model 3 – Differences between Weekly Minimum Wage/National Living
Wage 2016–2021

Table 12 – Business Model 1 – Additional Employers National Insurance under NLW vs.
Reduced Corporation Tax/Increased Employment Allowance 2016–2021

Table 13 – Business Model 2 – Additional Employers National Insurance under NLW vs.
Reduced Corporation Tax/Increased Employment Allowance 2016–2021

Table 14 – Business Model 3 – Additional Employers National Insurance under NLW vs.
Reduced Corporation Tax/Increased Employment Allowance 2016–2021

Table 15 – Business Model 1 – “NLW Employee Only” vs. Minimum Wage (All Costs) 2016–2021

Table 16 – Business Model 2 – “NLW Employee Only” vs. Minimum Wage (All Costs) 2016–2021

Table 17 – Business Model 3 – “NLW Employee Only” vs. Minimum Wage (All Costs) 2016–2021

Table 18 – The Three Business Models Additional Annual Wage Costs under National Living Wage
by 2020–2021

Table 19 – The Three Business Models Additional Annual Wage Costs under National Living Wage
by 2020–2021 “Employee Only”

SECTION 1 – INTRODUCTION

1.1 The Instruction

The National Farmers Union has instructed Andersons Midlands to prepare a report to assess the potential financial implications of the introduction of the National Living Wage for horticultural businesses in the UK, being those involved in fruit, ornamental, nursery and vegetable production.

1.2 Andersons Midlands

Andersons Midlands is one of five independent business advisory practices trading under the style of Andersons the Farm Business Consultants.

Andersons Midlands specialises in providing independent business advice to agricultural, horticultural and rural businesses, as well as the allied industries that support them. A summary of advice service areas is included in Appendix I.

This Report has been prepared by John Pelham, a partner in the Andersons Midlands business, whose areas of special expertise include horticulture. A curriculum vitae for the author is included in Appendix II.

1.3 Objectives of the Report

The objectives of the report are to:

- * calculate the additional employment costs that UK horticultural businesses may incur for the five year period following the introduction of the National Living Wage (“NLW”) on 1st April 2016, compared with the costs that could be incurred under the Minimum Wage (“MW”);
- * undertake an initial assessment of the financial impact of these additional costs on the economics of horticultural businesses;
- * consider the mitigation (announced by Government with the proposals for the National Living Wage) that changes to Corporation Tax and Employment Allowance may provide.

1.4 Summary of Report Content

In addition to this introduction, the report is organised under a further six sections, the key content of each being as follows:

Section 2 “The Minimum Wage” – considers past changes and future levels and includes a calculation of the possible Minimum Wage by year for the period April 2016 – March 2021.

Section 3 “The National Living Wage” – considers possible future levels and includes a calculation of the National Living Wage by year for the period April 2016 – March 2021.

Section 4 “A Comparison” – compares the figures from Sections 2 and 3 and identifies the additional employment costs to horticultural businesses that the National Living Wage will create, compared with the costs that could be incurred under the Minimum Wage.

Section 5 “The Possible Effect” – by reference to three example horticultural business, prepares a measurement of the financial consequences of the increases in employment costs arising from the introduction of the National Living Wage.

Section 6 “Proposed Mitigation in Corporation Tax and Employment Allowance” – considers the financial effect of a reduction in Corporation Tax and an increase in the Employment Allowance for Employers’ National Insurance contributions.

Section 7 – provides an Executive Summary.

SECTION 2 – THE MINIMUM WAGE

2.1 Increases October 2011–October 2015

The Minimum Wage was introduced in the UK on 1st April 1999 and is reviewed annually on 1st October. At the time of writing this Report the Minimum Wage rate (for workers aged 21 years and above) is £6.70 per hour.

Increases to the Minimum Wage rates for the last five years – that is October 2011 to October 2015 – have been as follows:

TABLE 1

MINIMUM WAGE RATE INCREASES 2011–2015

Year	£ per Hour	% Increase on Previous Year
October 2010 – September 2011	5.93	
October 2011 – September 2012	6.08	2.53
October 2012 – September 2013	6.19	1.81
October 2013 – September 2014	6.31	1.94
October 2014 – September 2015	6.50	3.01
October 2015 – September 2016	6.70	3.08
	Average	2.47

The average annual compound increase over the five year period is 2.47%.

2.2 Forecast Minimum Wage rate increases October 2016–October 2020

Using the average annual Minimum Wage rate increase for 2011–2015 of 2.47%, future Minimum Wage rates for the five years October 2016–2020 would be as follows:

TABLE 2

FORECAST MINIMUM WAGE RATES 2016–2021

Year	£ per Hour	% Increase on Previous Year
October 2015 – September 2016	6.70	
October 2016 – September 2017	6.87	2.47
October 2017 – September 2018	7.04	2.47
October 2018 – September 2019	7.21	2.47
October 2019 – September 2020	7.39	2.47
October 2020 – September 2021	7.57	2.47

2.3 Calculation of 40-Hour Weekly Minimum Wage April 2016–March 2021

A calculation of the potential total wage cost to the employer for the period April 2016–March 2021 under the Minimum Wage is set out in Table 3 and is based on the following assumptions:

- * That the Minimum Wage is £6.70 per hour from 1st April–30th September 2016 and for the coming five years – 2016 to 2020 – increases on 1st October in each year by the average of the preceding five years (i.e. 2011–2015), that is 2.47% per annum. Using the figures of the last five years as the basis for forecasting also most realistically reflects the economic conditions under which businesses have been making their future planning decisions. Recent economic indicators would not have suggested a significant increase in the rate of wage inflation over the preceding five year rate.
- * Allowances for Holiday Pay remain unchanged, at the rate of 12.07% of earnings.
- * The threshold for Employers’ National Insurance contributions remains unchanged at £156 per week.
- * The rate of Employers’ National Insurance contributions remains unchanged at 13.8%; the changes to the whole business Employment Allowance, announced in the Summer Budget 2015, have not been incorporated into these individual weekly calculations.
- * That the figures are per worker for a 40-hour week.

- * For the purposes of the calculation Auto Enrolment employer pension contributions have been excluded, due to the variation between businesses on start date/level of contributions.
- * The calculations of weekly Minimum Wage rates for each of the years April 2016 – March 2021 have been made in two parts, being for April–September and October – March, to reflect the increase in the Minimum Wage being introduced on 1st October. For the purpose of establishing an average annual rate, the following weightings have been applied to the rates of April-September/October-March to reflect the timing of seasonal work in UK horticultural businesses, a larger proportion of which is during the spring and summer:

April–September = 70%

October –March = 30%

TABLE 3

MINIMUM WAGE (MW) – AVERAGE 40-HOUR WEEKLY WAGE FORECASTS

TOTAL COST TO EMPLOYER

APRIL 2016 – MARCH 2021

PERIOD		MW £/Hour	MW Weekly £	Holiday Weekly £	Employer NI Weekly £	Total Weekly £	Weekly Average (70/30%)
2016-2017	April - Sept 2016	6.70	268.00	32.35	15.46	315.81	
	Oct 2016-March 2017	6.87	274.80	33.17	16.39	324.36	318.37
2017-2018	April - Sept 2017	6.87	274.80	33.17	16.39	324.36	
	Oct 2017-March 2018	7.04	281.60	33.99	17.33	332.92	326.93
2018-2019	April - Sept 2018	7.04	281.60	33.99	17.33	332.92	
	Oct 2018-March 2019	7.21	288.40	34.81	18.27	341.48	335.49
2019-2020	April - Sept 2019	7.21	288.40	34.81	18.27	341.48	
	Oct 2019-March 2020	7.39	295.60	35.68	19.26	350.54	344.20
2020-2021	April - Sept 2020	7.39	295.60	35.68	19.26	350.54	
	Oct 2020-March 2021	7.57	302.80	36.55	20.26	359.61	353.26

SECTION 3 – THE NATIONAL LIVING WAGE

3.1 Introduction

The National Living Wage is to be introduced from 1st April 2016 at the rate of £7.20 per hour and will supersede the Minimum Wage rate for all workers of 25 years old and over.

For the purposes of this report it has been assumed that the rate will increase to £9.35 per hour by 1st April 2020, as estimated by the Office for Budget Responsibility.

The annual rates, and their percentage increase on the previous year, are set out in the following Table 4, based on equal annual increases.

TABLE 4

FORECAST NATIONAL LIVING WAGE RATES 2016–2021

PERIOD	NLW £/Hour	% Increase on Previous Year
April 2016 - March 2017	7.20	7.46
April 2017 - March 2018	7.73	7.36
April 2018 - March 2019	8.27	6.99
April 2019 - March 2020	8.81	6.53
April 2020 - March 2021	9.35	6.13
	Average	6.89

3.2 Calculation of 40-Hour Weekly National Living Wage April 2016–March 2021

A calculation of the total wage cost to the employer is set out in Table 5 and is based on the following assumptions:

- * That the National Living Wage is introduced on 1st April 2016 at £7.20 per hour and increases to £9.35 per hour from 1st April 2020. For the purpose of this indicative calculation, equal annual increases in the National Living Wage have been assumed.
- * Allowances for Holiday Pay remain unchanged, at the rate of 12.07% of earnings.
- * The threshold for Employers' National Insurance contributions remains unchanged at £156 per week.

- * The rate of Employers' National Insurance contributions remains unchanged at 13.8%; the changes to the whole business Employment Allowance, announced in the Summer Budget 2015, have not been incorporated into these individual weekly calculations.
- * That the figures are per worker for a 40-hour week.
- * For the purposes of the calculation Auto Enrolment employer pension contributions have been excluded, due to the variation between businesses on start date/level of contributions.

TABLE 5

NATIONAL LIVING WAGE – AVERAGE 40-HOUR WEEKLY WAGE FORECASTS

TOTAL COST TO EMPLOYER

APRIL 2016 – MARCH 2021

PERIOD	NLW £/Hour	NLW Weekly £	Holiday Weekly £	Employer NI Weekly £	Total Weekly £
April 2016 - March 2017	7.20	288.00	34.76	18.22	340.98
April 2017 - March 2018	7.73	309.20	37.32	21.14	367.66
April 2018 - March 2019	8.27	330.80	39.93	24.12	394.85
April 2019 - March 2020	8.81	352.40	42.53	27.10	422.04
April 2020 - March 2021	9.35	374.00	45.14	30.08	449.23

SECTION 4 – A COMPARISON OF FORECAST FUTURE MINIMUM WAGE/NATIONAL LIVING WAGE LEVELS

4.1 Calculation of Differences between Forecast Figures

Table 6, below, includes the forecasts for Minimum Wage and National Living Wage – as set out in Sections 2 and 3 – and calculates the difference between them in £ per week per employee.

This difference is the forecast *additional* financial cost to the employer arising from the introduction of the National Living Wage.

TABLE 6
DIFFERENCES BETWEEN 40-HOUR WEEKLY MINIMUM WAGE /
NATIONAL LIVING WAGE FORECASTS
TOTAL COST TO EMPLOYER
APRIL 2016–MARCH 2021

PERIOD	MINIMUM WAGE Weekly Average £	NATIONAL LIVING WAGE Weekly Average £	Additional Cost Weekly £
April 2016-March 2017	318.37	340.98	22.61
April 2017-March 2018	326.93	367.66	40.73
April 2018-March 2019	335.49	394.85	59.36
April 2019-March 2020	344.20	422.04	77.84
April 2020-March 2021	353.26	449.23	95.97

4.2 Distribution of Increase between Employee Wages / Employers' National Insurance Contributions

The following Table 7 shows how the weekly difference set out in Table 6 is distributed between the employee (as wages and Holiday Pay) and additional Employers' National Insurance contributions.

The figures are as follows:

TABLE 7**DISTRIBUTION OF NATIONAL LIVING WAGE INCREASE BETWEEN
EMPLOYEE WAGES / EMPLOYERS NATIONAL INSURANCE CONTRIBUTIONS****APRIL 2016–MARCH 2021**

PERIOD	Minimum Wage Weekly Average To Employee £	National Living Wage Weekly Average To Employee £	Additional Cost Weekly To Employee £	Minimum Wage Weekly Average Employers NI £	National Living Wage Weekly Average Employers NI £	Additional Cost Weekly Employers NI £
April 2016-March 2017	302.63	322.76	20.13	15.74	18.22	2.48
April 2017-March 2018	310.25	346.52	36.27	16.68	21.14	4.46
April 2018-March 2019	317.88	370.73	52.85	17.61	24.12	6.51
April 2019-March 2020	325.63	394.93	69.30	18.57	27.10	8.53
April 2020-March 2021	333.70	419.14	85.44	19.56	30.08	10.52

SECTION 5 – THE FORECAST CONSEQUENCES OF ADDITIONAL WAGE INFLATION FOR HORTICULTURAL BUSINESSES

5.1 Labour Employment in UK Horticulture

Horticulture is a significant sector in the UK Farming Industry, producing 16.4% of total UK farm output (Source: DEFRA Average 2009–2013), although only accounting for less than 1% of the farmed area. It is a high output sector matched by high costs of production.

Many horticultural crops have an unusually high requirement for labour. Furthermore, this requirement is seasonal, with the greatest demand being in the May–September period.

Whilst there is considerable variation both between crop types and farms, expenditure on labour for horticultural crops is frequently equivalent to the range 35–60% of turnover, although for some crops is even higher. To put this into context, labour costs can total £20,000–50,000 per hectare for the most intensive crops. Few other sectors of the UK farming industry incur labour costs at this level.

This unusually high expenditure on seasonal labour makes the financial performance of horticultural businesses particularly sensitive to changes in wage costs.

5.2 Method of Assessment

In Sections 2 and 3, forecasts have been made of the increased weekly wage costs to employers in the five years April 2016–March 2021 arising from both the Minimum Wage and National Living Wage. In Section 4 the potential additional costs of the National Living Wage vs. the Minimum Wage have been calculated.

The objective of this section is to consider the potential financial consequences of these changes for horticulture by reference to three Business Models, of differing scale and therefore requirement for seasonal workers. The three models are as follows:

- * **Business Model 1** – employs 80 seasonal workers for 15 weeks (total 1,200 weeks) per year at an average of 40 hours per week.
- * **Business Model 2** – employs 250 seasonal workers for 20 weeks (total 5,000 weeks) per year at an average of 40 hours per week.
- * **Business Model 3** – employs 450 seasonal workers for 20 weeks (total 9,000 weeks) per year at an average of 40 hours per week.

By way of context, the range of turnover of these three models might be as follows:

- * **Business Model 1** = £1–1.5 million (median of £1,250,000)
- * **Business Model 2** = £3.5–5 million (median of £4,250,000)
- * **Business Model 3** = £8–10 million (median of £9,000,000)

5.3 The Proportion of Workers of 25 Years of Age and Over

Prior to the discontinuation of the Seasonal Agricultural Workers Scheme (“SAWS”), the seasonal workforce in many horticultural businesses included a significant proportion of workers under 25 years old. With the abolition of SAWS, the age profile of seasonal workforces has changed considerably, with horticultural businesses now employing a greater proportion of workers aged 25 years and over. Experience suggests that for a large number of horticultural businesses this proportion is currently between 60 –80% of all workers.

In practice many horticultural businesses are indicating that, to effectively manage and motivate staff – often working together in groups on common tasks such as crop harvesting – separate rates of pay for under/over 25 year olds would be impractical and counter-productive in motivating employees; they will necessarily have to adopt a single rate for all employees, regardless of age.

However, for the purposes of the calculations that follow, it has been assumed that the median of 70% applies to our Business Models, that is the National Living Wage applies to 70% of their seasonal workers. The figures are as follows:

- * **Business Model 1** – employs 80 seasonal workers for 15 weeks (total 1,200 weeks) per year at an average of 40 hours per week, of whom 56 workers are 25+ (total 840 weeks).
- * **Business Model 2** – employs 250 seasonal workers for 20 weeks (total 5,000 weeks) per year at an average of 40 hours per week, of whom 175 workers are 25+ (total 3,500 weeks).
- * **Business Model 3** – employs 450 seasonal workers for 20 weeks (total 9,000 weeks) per year at an average of 40 hours per week, of whom 315 workers are 25+ (total 6,300 weeks).

5.4 A Benchmark against which to Assess the Financial Effect of National Living Wage Inflation

The logical benchmark to use is horticultural business profit.

For horticultural enterprises there is an underlying downward trend in business profits over time, as produce prices tend to remain static or decline, whilst the costs of production continue to increase, notwithstanding the considerable technical advances (and therefore productivity gains) that have been achieved in horticulture.

Andersons Midlands' extensive knowledge of the financial workings of UK horticultural businesses would suggest that, at the present time, the profits of many businesses (recognising that there can be considerable variation between businesses, growing seasons and individual crops), would typically fall in the range 2 – 8% of turnover.

For the purpose of the indicative calculations that follow, a median profit of 5% of turnover has therefore been assumed.

On this basis the annual profits for the three Business Models would be as follows:

TABLE 8

BUSINESS MODELS ANNUAL PROFITS AT 5% OF TURNOVER

	Median Turnover £	Annual Profit @ 5% of Median Turnover £
Business Model 1	1,250,000	62,500
Business Model 2	4,250,000	212,500
Business Model 3	9,000,000	450,000

These three profit figures provide a benchmark against which to test the potential financial consequences of wage inflation.

5.5 Measurement of National Living Wage Inflation 2016–2021

Table 6 sets out the potential additional labour costs under the National Living Wage for a 40-hour week, compared with those under the Minimum Wage.

The following three tables set out the potential additional employment costs resulting from the introduction of the National Living Wage for each of the Business Models.

TABLE 9
BUSINESS MODEL 1
1,200 WEEKS x 70% = 840 WEEKS EMPLOYMENT PER YEAR
DIFFERENCES BETWEEN WEEKLY MINIMUM WAGE/NATIONAL LIVING WAGE
2016-2021

INDICATIVE CURRENT ANNUAL PROFIT @ 5% TURNOVER=£62,500

PERIOD	Minimum Wage Average/Week £	Minimum Wage Total/Year £	National Living Wage Average/Week £	National Living Wage Total/Year £	Additional Increase £
April 2016-March 2017	318.37	267,431	340.98	286,421	18,990
April 2017-March 2018	326.93	274,621	367.66	308,834	34,213
April 2018-March 2019	335.49	281,812	394.85	331,674	49,862
April 2019-March 2020	344.20	289,128	422.04	354,514	65,386
April 2020-March 2021	353.26	296,738	449.23	377,353	80,615

In summary:

- Over the 5 years total wage costs for 25 years+ workers go up from £267,431 to £377,353, an increase of £109,922 (equivalent to 176% of current business profit).
- Of this total increase, £29,307 (£267,431 up to £296,738) is attributable to the forecast rise in the Minimum Wage (equivalent to 47% of current business profit).
- Of this total increase, a further £80,615 is attributable to the forecast rise in the National Living Wage (equivalent to 129% of current business profit).
- For this Business Model, the additional employment costs arising from the introduction of the National Minimum Wage are too significant to be countered by productivity gains; radical changes, including reduced production, are inevitable.

TABLE 10
BUSINESS MODEL 2
5,000 WEEKS x 70% = 3,500 WEEKS EMPLOYMENT PER YEAR
DIFFERENCES BETWEEN WEEKLY MINIMUM WAGE/NATIONAL LIVING WAGE
2016-2021

INDICATIVE CURRENT ANNUAL PROFIT @ 5% TURNOVER=£212,500

PERIOD	Minimum Wage Average/Week £	Minimum Wage Total/Year £	National Living Wage Average/Week £	National Living Wage Total/Year £	Additional Increase £
April 2016-March 2017	318.37	1,114,295	340.98	1,193,422	79,127
April 2017-March 2018	326.93	1,144,255	367.66	1,286,810	142,555
April 2018-March 2019	335.49	1,174,215	394.85	1,381,975	207,760
April 2019-March 2020	344.20	1,204,700	422.04	1,477,140	272,440
April 2020-March 2021	353.26	1,236,410	449.23	1,572,305	335,895

In summary:

- Over the 5 years total wage costs for 25 years+ workers go up from £1,114,295 to £1,572,305, an increase of £458,010 (equivalent to 216% of current business profit).
- Of this total increase, £122,115 (£1,114,295 up to £1,236,410) is attributable to the forecast rise in the Minimum Wage (equivalent to 58% of current business profit).
- Of this total increase, a further £335,895 is attributable to the forecast rise in the National Living Wage (equivalent to 158% of current business profit).
- For this Business Model, the additional employment costs arising from the introduction of the National Minimum Wage are too significant to be countered by productivity gains; radical changes, including reduced production, are inevitable.

TABLE 11
BUSINESS MODEL 3
9,000 WEEKS x 70% = 6,300 WEEKS EMPLOYMENT PER YEAR
DIFFERENCES BETWEEN WEEKLY MINIMUM WAGE/NATIONAL LIVING WAGE
2016-2021

INDICATIVE CURRENT ANNUAL PROFIT @ 5% TURNOVER=£450,000

PERIOD	Minimum Wage Average/Week £	Minimum Wage Total/Year £	National Living Wage Average/Week £	National Living Wage Total/Year £	Additional Increase £
April 2016-March 2017	318.37	2,005,731	340.98	2,148,159	142,428
April 2017-March 2018	326.93	2,059,659	367.66	2,316,258	256,599
April 2018-March 2019	335.49	2,113,587	394.85	2,487,555	373,968
April 2019-March 2020	344.20	2,168,460	422.04	2,658,852	490,392
April 2020-March 2021	353.26	2,225,538	449.23	2,830,149	604,611

In summary:

- Over the 5 years total wage costs for 25 years+ workers go up from £2,005,731 to £2,830,149 an increase of £824,418 (equivalent to 183% of current business profit).
- Of this total increase, £219,807 (£2,005,731 up to £2,225,538) is attributable to the forecast rise in the Minimum Wage (equivalent to 48% of current business profit).
- Of this total increase, a further £604,611 is attributable to the forecast rise in the National Living Wage (equivalent to 135% of current business profit).
- For this Business Model, the additional employment costs arising from the introduction of the National Minimum Wage are too significant to be countered by productivity gains; radical changes, including reduced production, are inevitable.

SECTION 6 – FINANCIAL ASSESSMENT OF PROPOSED MITIGATION IN CORPORATION TAX / EMPLOYMENT ALLOWANCE

6.1 The Proposals for Changes to Corporation Tax and Employment Allowance

In the Summer 2015 Budget, Government proposed that, in order to help mitigate the financial effect of the increased costs to employers brought about by the introduction of the National Living Wage, changes will be made to Corporation Tax and the Employment Allowance. The Corporation Tax rate will reduce by 1% in 2017 to 19%, and by a further 1% in 2020 to 18%. The Employment Allowance will increase from £2,000 per business to £3,000 in 2016.

Whilst the increased Employment Allowance will be relevant to all horticultural businesses, the reductions in Corporation Tax will only be relevant to some, as a significant number (as with UK farming businesses generally) trade as either partnerships or sole traders.

6.2 Measurement of National Living Wage Employers NI only Increases 2016–2021

Notwithstanding the observations about Corporation Tax reductions not being relevant to all growers, it is possible to calculate, for our Business Models, the savings that will accrue from both the increased Employment Allowance and reduced Corporation Tax rates and compare these figures with the additional Employers' National Insurance contributions that will arise as a result of the National Living Wage.

The following three tables *exclude the additional payment to employees* arising from the National Living Wage and solely identify the amount of additional Employers' National Insurance (NI) contributions that will be paid, compared with NI payments under the Minimum Wage (for weekly differences for 2016–2021, see Table 7). These additional Employers' National Insurance payments are compared with the benefit arising from increased Employment Allowance/reducing Corporation Tax (assuming an incorporated business).

The figures are as follows:

TABLE 12**BUSINESS MODEL 1****1,200 x 70% = 840 WEEKS EMPLOYMENT PER YEAR****ADDITIONAL EMPLOYERS NATIONAL INSURANCE UNDER NLW****vs. REDUCED CORPORATION TAX/ADDITIONAL EMPLOYMENT ALLOWANCE****2016–2021*****ASSUMES INCORPORATED BUSINESS******INDICATIVE CURRENT PROFIT @ 5% TURNOVER=£62,500***

PERIOD	Additional Employers NI £/Week	Number of Weeks	Total Increase due to Employers NI £	Additional Employment Allowance £	Reduced Corporation Tax £	NET INCREASE
April 2016-March 2017	2.48	840	2,083	1,000		1,083
April 2017-March 2018	4.46	840	3,746	1,000	625	2,121
April 2018-March 2019	6.51	840	5,468	1,000	625	3,843
April 2019-March 2020	8.53	840	7,165	1,000	625	5,540
April 2020-March 2021	10.52	840	8,837	1,000	1,250	6,587

TABLE 13**BUSINESS MODEL 2****5,000 x 70% = 3,500 WEEKS EMPLOYMENT PER YEAR****ADDITIONAL EMPLOYERS NATIONAL INSURANCE UNDER NLW****vs. REDUCED CORPORATION TAX/ADDITIONAL EMPLOYMENT ALLOWANCE****2016–2021*****ASSUMES INCORPORATED BUSINESS******INDICATIVE CURRENT PROFIT @ 5% TURNOVER=£212,500***

PERIOD	Additional Employers NI £/Week	Number of Weeks	Total Increase due to Employers NI £	Additional Employment Allowance £	Reduced Corporation Tax £	NET INCREASE
April 2016-March 2017	2.48	3,500	8,680	1,000		7,680
April 2017-March 2018	4.46	3,500	15,610	1,000	2,125	12,485
April 2018-March 2019	6.51	3,500	22,785	1,000	2,125	19,660
April 2019-March 2020	8.53	3,500	29,855	1,000	2,125	26,730
April 2020-March 2021	10.52	3,500	36,820	1,000	4,250	31,570

TABLE 14
BUSINESS MODEL 3
9,000 x 70% = 6,300 WEEKS EMPLOYMENT PER YEAR
ADDITIONAL EMPLOYERS NATIONAL INSURANCE UNDER NLW
vs. REDUCED CORPORATION TAX/ADDITIONAL EMPLOYMENT ALLOWANCE
2016–2021
ASSUMES INCORPORATED BUSINESS
INDICATIVE CURRENT PROFIT @ 5% TURNOVER=£450,000

PERIOD	Additional Employers NI £/Week	Number of Weeks	Total Increase due to Employers NI £	Additional Employment Allowance £	Reduced Corporation Tax £	NET INCREASE
April 2016-March 2017	2.48	6,300	15,624	1,000		14,624
April 2017-March 2018	4.46	6,300	28,098	1,000	4,500	22,598
April 2018-March 2019	6.51	6,300	41,013	1,000	4,500	35,513
April 2019-March 2020	8.53	6,300	53,739	1,000	4,500	48,239
April 2020-March 2021	10.52	6,300	66,276	1,000	9,000	56,276

Assuming no increases to the 13.8% rate of Employers’ National Insurance contributions, our three Business Models (assuming that they are incorporated, although it should be re-emphasised that many horticultural businesses do not trade as companies) by 2020–2021 will be paying *net additional employers’ tax* as follows:

Business Model 1 = £6,587 (equivalent to 11% of current business profit)

Business Model 2 = £31,750 (equivalent to 15% of current business profit)

Business Model 3 = £56,276 (equivalent to 13% of current business profit)

6.3 Measurement of National Living Wage Employee Wages Only Increases 2016–2021

This section compares the total employment costs forecast under the Minimum Wage (i.e. employee costs + Employers National Insurance contributions) for 2016–2021 and compares the annual figures with the “Employee only” costs under the National Living Wage. In other words, by how much would employment costs increase under the National Living Wage if there were no requirement to pay Employers’ National Insurance contributions.

The following three tables – for each of the business models – show how the “NLW Employee Only” figures for each of the five years 2016–2021 compare with the forecast figures for the Minimum Wage (employee + Employers NI) for the same period.

TABLE 15

BUSINESS MODEL 1

1,200 x 70% = 840 WEEKS EMPLOYMENT PER YEAR

“NLW EMPLOYEE ONLY” vs. MINIMUM WAGE (ALL COSTS)

2016–2021

INDICATIVE CURRENT PROFIT @ 5% TURNOVER=£62,500

PERIOD	Minimum Wage Average/Week ALL COSTS £	Minimum Wage Total/Year ALL COSTS £	National Living Wage Average/Week EMPLOYEE ONLY £	National Living Wage Total/Year EMPLOYEE ONLY £	Additional Increase £
April 2016-March 2017	318.37	267,431	322.76	271,118	3,688
April 2017-March 2018	326.93	274,621	346.52	291,077	16,456
April 2018-March 2019	335.49	281,812	370.73	311,413	29,602
April 2019-March 2020	344.20	289,128	394.93	331,741	42,613
April 2020-March 2021	353.26	296,738	419.14	352,078	55,339

TABLE 16

BUSINESS MODEL 2

5,000 x 70% = 3,500 WEEKS EMPLOYMENT PER YEAR

“NLW EMPLOYEE ONLY” vs. MINIMUM WAGE (ALL COSTS)

2016–2021

INDICATIVE CURRENT PROFIT @ 5% TURNOVER=£212,500

PERIOD	Minimum Wage Average/Week ALL COSTS £	Minimum Wage Total/Year ALL COSTS £	National Living Wage Average/Week EMPLOYEE ONLY £	National Living Wage Total/Year EMPLOYEE ONLY £	Additional Increase £
April 2016-March 2017	318.37	1,114,295	322.76	1,129,660	15,365
April 2017-March 2018	326.93	1,144,255	346.52	1,212,820	68,565
April 2018-March 2019	335.49	1,174,215	370.73	1,297,555	123,340
April 2019-March 2020	344.20	1,204,700	394.93	1,382,255	177,555
April 2020-March 2021	353.26	1,236,410	419.14	1,466,990	230,580

TABLE 17
BUSINESS MODEL 3

9,000 x 70% = 6,300 WEEKS EMPLOYMENT PER YEAR
“NLW EMPLOYEE ONLY” vs. MINIMUM WAGE (ALL COSTS)
2016–2021

INDICATIVE CURRENT PROFIT @ 5% TURNOVER=£450,000

PERIOD	Minimum Wage Average/Week ALL COSTS £	Minimum Wage Total/Year ALL COSTS £	National Living Wage Average/Week EMPLOYEE ONLY £	National Living Wage Total/Year EMPLOYEE ONLY £	Additional Increase £
April 2016-March 2017	318.37	2,005,731	322.76	2,033,388	27,657
April 2017-March 2018	326.93	2,059,659	346.52	2,183,076	123,417
April 2018-March 2019	335.49	2,113,587	370.73	2,335,599	222,012
April 2019-March 2020	344.20	2,168,460	394.93	2,488,059	319,599
April 2020-March 2021	353.26	2,225,538	419.14	2,640,582	415,044

In summary, each of the Business Models would face very significant wage inflation under the National Living Wage, *even if there were no Employers’ National Insurance contributions*. By 2020–2021 the increases would be as follows:

Business Model 1 = £55,339 (equivalent to 89% of current business profit)

Business Model 2 = £230,580 (equivalent to 109% of current business profit)

Business Model 3 = £415,044 (equivalent to 92% of current business profit)

SECTION 7 – EXECUTIVE SUMMARY

THE SECTOR

- Horticulture is a key part of the UK farming industry, representing some 16% of UK farm output, by value.
- Horticulture is responsible for meeting an important proportion of UK consumer requirements – supplying, for example, some 35% of apples, 40–45% of cauliflowers and lettuce, 70% of strawberries and over 90% of cabbages and carrots (Source: DEFRA).
- Many horticultural crops have an unusually high requirement for labour (typically in the range 35–60% of turnover, although in some crops the figure can be as high as 70%), making the financial performance of horticultural crops highly sensitive to changes in wage costs.
- Despite significant technical improvements in the methods of horticultural production, grower profits have continued to be eroded as the inflation of production costs – most importantly labour – has not been offset by increases in produce values and, indeed, some products have reduced in value.
- Andersons Midlands extensive knowledge of horticultural economics would suggest that, at the present time, profits in the horticultural sector have declined to a range typically equivalent to 2–8% of turnover, a level not well matched to the high levels of risk associated with many horticultural crops (both from weather and the often perishable nature of the crops produced).

THE FINANCIAL EFFECTS OF PROPOSED CHANGES TO WAGES, CORPORATION TAX AND EMPLOYMENT ALLOWANCE

- The calculations in Sections 2–5 clearly indicate the significant threat posed to many horticultural crops by the proposed additional increases to employment costs under the National Living Wage.
- Mitigation in the form of reduced Corporation Tax is not applicable to a proportion of horticultural businesses. Furthermore, the figures in Section 6 show that the benefits of reducing rates of Corporation Tax and increased Employment Allowance are considerably less than the increases in Employers' National Insurance contributions – i.e. there is a net increase in total Employer taxation.

- The threat to the economics of horticultural crop production is clearly summarised by the increased employment costs to the three Business Models by 2020–2021 (figures, which it should be noted, do not take into account the additional costs of Auto-Enrolment). They are as follows:

TABLE 18

THE THREE BUSINESS MODELS

ADDITIONAL ANNUAL WAGE COSTS UNDER NATIONAL LIVING WAGE

BY 2020–2021

Business	Additional Annual Wage Costs National Living Wage £	Current Annual Profit at 5% of Turnover £
Model Business 1	80,615	62,500
Model Business 2	335,895	212,500
Model Business 3	604,611	450,000

- These figures compares with the “NLW Employee Only” increases (set out in Section 6.3) as follows:

TABLE 19

THE THREE BUSINESS MODELS

ADDITIONAL ANNUAL WAGE COSTS UNDER NATIONAL LIVING WAGE

“EMPLOYEE ONLY” / NO EMPLOYERS NI

BY 2020–2021

Business	Additional Wage Costs National Living Wage EMPLOYEE ONLY £	Current Annual Profit at 5% of Turnover £
Model Business 1	55,339	62,500
Model Business 2	230,580	212,500
Model Business 3	415,044	450,000

-
- In other words, Table 19 shows that even if there were no Employers' National Insurance contributions under the National Living Wage, each of the three model businesses would still be facing wage inflation broadly equivalent to or in excess of current business profit.
 - In summary, the introduction of the National Living Wage will increase the cost of seasonal wages for the growers of horticultural crops in the UK – as set out in Table 4 – 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. Furthermore, even the longer term comparison shows the National Living Wage increases to be unprecedented – by comparison, the average annual increase under the Minimum Wage between its introduction in 1999 and October 2015 being just under 4% (notwithstanding a small number of high increase years).

THE POSSIBLE CONSEQUENCES

- Horticulture has been at the forefront of technical developments in the UK farming industry, with mechanised harvesting of some vegetable crops and the growing of soft fruit in polytunnels being examples. Notwithstanding the productivity gains that such developments have brought, the underlying trend in horticultural business profits has been downward, as continuing increases in employment costs have exceeded productivity gains.
- Any measures that increase the rate of inflation of growers' main cost of production – that is the costs of employment – will put in question the growing of some horticultural crops in the UK; one of the likely results is a reduction in supply.
- In principle, the main consequences of this reduced supply could include:
 - * 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;
 - * an increase in imported produce to replace reduced domestic supply.

➤ In conclusion, 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 National Living Wage, 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.

APPENDIX I

Andersons Midlands service areas

- Business appraisal and strategic planning
- Investment planning and appraisal
- Financial planning including budget and cashflow preparation
- Enterprise costings and benchmarking
- Farm business administration
- IT and software design
- Contract Farming Agreements and Joint Ventures
- Cooperation and collaboration
- Diversification
- Understanding CAP schemes and grant support
- Single payment / agri-environment claims and problem solving
- Preparation of grant applications
- Tenancy matters, rent review and arbitration
- Expert witness
- Insolvency
- Recruitment

APPENDIX II

EJ PELHAM CURRICULUM VITAE

John Pelham - MA (Oxon) Agricultural & Forest Sciences

Joined what was, then, David Anderson & Company in 1985, becoming a Partner in 1990 and assuming responsibility for the management of a consultancy team operating throughout the Midlands region. One of the founding Partners of the Andersons Midlands practice, formed in 2001, and now based at their West Midlands office in Hereford.

With over 30 years' consultancy experience, he has provided advice to a large number of farming businesses throughout the UK, working with both cropping and livestock systems and drawing extensively on the seven years' practical experience previously gained in farming and farm management. He increasingly advises on strategy and business development and has particular expertise in helping businesses address the issue of succession. He has a detailed working knowledge of all aspects of business advice with particular experience in:

- * Strategic Business Planning
- * Financial forecasts and Investment Appraisal
- * Detailed enterprise costings and benchmarking for all crop and livestock systems
- * Specialist business advice for top and soft fruit growers
- * Farming systems and agricultural support
- * Contract Farming Agreements and Joint Ventures
- * Expert Witness
- * Training and Recruitment

Background and Practical Farming Experience

Brought up with farming background, Father being Principal of Hertfordshire College of Agriculture and Horticulture

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|------------------|--|
| 1974-75 | Farm worker on 700 acre farm with dairy, beef, pig and arable enterprises in Hertfordshire |
| 1978 | Graduated from Oxford University with degree in Agricultural and Forest Sciences |
| 1978-79 | Farm worker on 900 acre farm with dairy, beef, sheep and arable enterprises in Devon |
| 1979-1983 | Assistant Farm Manager on arable, fruit, livestock and leisure business in Suffolk |
| 1983-1985 | Farm Manager on 1,000 acres in County Westmeath, Eire including a 400 cow dairy herd, dairy youngstock and cereal cropping |