

Explanatory Memorandum to the Agricultural Wages (Wales) Order 2016

This Explanatory Memorandum has been prepared by the Department of Economy, Skills and Natural Resources and is laid before the National Assembly for Wales in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1

Minister's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Agricultural Wages (Wales) Order 2016. I am satisfied that the benefits justify the likely costs.

Rebecca Evans AM
Deputy Minister for Farming and Food

3 February 2016

1. Description

The Agricultural Sector (Wales) Act 2014 (the 2014 Act) maintains the statutory agricultural minimum wage (AMW) regime in Wales following the abolition of the Agricultural Wages Board (AWB) for England and Wales. In particular, the Act preserves the effect of the Agricultural Wages (England and Wales) Order 2012 in relation to Wales only. Annex A contains the summary of statutory provisions applicable under the Agricultural Wages (England and Wales) Order 2012.

The 2014 Act provides Welsh Ministers with the power to establish an Agricultural Advisory Panel for Wales (the Panel) to carry out similar but more modified functions as the AWB, including preparing draft agricultural wages orders, consulting on such orders and submit draft orders for the approval of the Welsh Ministers. The Act provides for the introduction of future agricultural wages orders in Wales.

In accordance with the Act, the Panel will have the functions of promoting careers in agriculture, preparing agricultural wages orders in draft for the approval of the Welsh Ministers and advising the Welsh Ministers on matters related to the agricultural sector, if required. The development of the Agricultural Advisory Panel is ongoing and it is expected that the Panel will be put in place by spring 2016.

The Welsh Ministers also have the power to introduce an agricultural wages order before the Panel is established. Public consultation on whether such an order should be introduced and if so, the provisions it should contain opened on 11 May and closed on 3 August 2015. In line with the consultation responses, the Deputy Minister for Farming and Food decided to introduce an agricultural wages order.

This Order will replace the Agricultural Wages (England and Wales) Order 2012 which is still applicable in Wales under the provisions of the 2014 Act. The agricultural wages order is intended to be an interim measure only and will stay in force until the Panel is operational and is able to propose a new wages order which is subsequently made by the Welsh Ministers.

2. Matters of special interest to the Constitutional and Legislative Affairs Committee

Section 4 (2) of the 2014 Act stipulates that the Welsh Ministers may, on their own initiative, make agricultural wages orders until as such time as the Panel is established.

3. Legislative background

The Agricultural Wages (Wales) Order 2016 is made pursuant to sections 3, 4(2) and 17 of the 2014 Act.

Section 3(1) provides that an agricultural wages order is an order making provision about the minimum rates of remuneration and other terms and conditions of employment for agricultural workers. In particular, pursuant to section 3(2), an agricultural wages order may include provision specifying (among other things) the minimum rates of remuneration to be paid to agricultural workers.

Section 3(3) provides that an agricultural wages order may specify different rates and make different provision for different descriptions of agricultural worker.

Section 4(2) stipulates that the Welsh Ministers may, on their own initiative, make agricultural wages orders until such time as the Panel is established.

Section 17(1) provides the power to make such incidental, consequential, supplemental, transitional, transitory or saving provision as the Welsh Ministers consider necessary or expedient for the purposes of the Act and to make different provision for different purposes.

Pursuant to section 17(3) of the 2014 Act the Order is subject to the negative procedure.

4. Purpose & intended effect of the legislation

The statutory AMW regime which is preserved by the 2014 Act, safeguards employment conditions and allowances unique to the agricultural sector. It recognises and rewards qualifications and experience through a six grade career structure and provides remuneration rates for each grade and category of worker.

Given the distinct nature of agricultural employment, including seasonality, dominance of casual employment and the use of on-farm accommodation, it is considered desirable to have a separate system of wage setting and employment provisions. This was previously managed by the AWB using Agricultural Wages Orders. The final wages order issued by the AWB in 2012, prior to its abolition, is still the order that governs agricultural employment terms and conditions in Wales. While this maintains a structure of provisions for agricultural workers, it also means that agricultural minimum wage rates have not been reviewed since (though adjustments to some wages have arisen during the period to ensure compliance with the uprating of the National Minimum Wages).

The Agricultural Wages (Wales) Order 2016 will ensure that the sector in Wales operated under provisions which would be in step with current economic conditions, including increased cost of living and changes to the National Minimum Wage (NMW) level until the Panel is set up and able to commence its work.

The wider implications of pay disparities in agriculture have been taken into consideration when proposing the introduction of the Agricultural Wages

(Wales) Order 2016, specifically the impact on rural economies. Ensuring fair wages for agricultural workers and supporting rural communities is of vital importance within the context of the Welsh Government's Tackling Poverty agenda. The specific goals of the Tackling Poverty agenda include raising household incomes, improving the skills base of young people and helping families in poorer communities. Providing higher hourly wages for agricultural workers will have the capacity to support families by increasing their household income (to the extent that this is not offset by reduction in employment or working hours). The provisions for apprentices and training - in particular that the Order specifies that employers must pay the cost of agreed training and the provision which allows Grade 1 workers to acquire the necessary qualifications to move to a higher grade at the expense of the employer following a continuous employment of 30 weeks - within the new order will assist in young people gaining skills and qualifications, which can improve their job prospects in the future.

The Agricultural Wages (Wales) Order 2016 will increase basic pay by around 6% for workers Grade 2-6, flexible workers, young workers and apprentices, representing an annual increase of around 2% for the period of 2012-2015. The 6% increase will not apply to Grade 1 workers as their pay increased in line with the NMW increases since 2012. The methodology used to calculate the increase is based on the average increases the AWB applied while in existence and the NMW changes. The methodology also maintains the relative pay differentials between the six grades of workers specified under the AMW regime.

The AMW regime rewards qualifications and experience in agriculture through a six grade career structure. Traditionally the hourly pay of Grade 1 workers was set at or just above the NMW since its introduction in 1999. Even though agricultural workers have not had a pay review since 2012, the wages of Grade 1 workers increased in line with the NMW changes in 2013, 2014 and 2015.

In the Agricultural Wages (Wales) Order 2016, the rate of Grade 1 will be set 2p above the NMW introduced on 1 October 2015 (i.e. £6.72). Grade 1 is seen as a transitional Grade within the AMW regime. The statutory provisions allow Grade 1 workers to gain the necessary qualifications to move to Grade 2 following 30 weeks of continuous employment, at the expense of their employer.

The table below compares the 2012 applicable rates for agricultural workers per Grade to the new rates that will be applicable under the Agricultural (Wages) Wales Order 2016.

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6
New rates	6.72	7.39	8.12	8.72	9.23	9.97
2012 rates	6.21	6.96	7.66	8.21	8.70	9.40
Increase	8.2 %	6.2%	6%	6.2%	6.1%	6.1%

Available data shows that most agricultural workers are employed at Grade 2 level. The differential between Grade 1 and Grade 2, and the subsequent higher grades, provides an incentive for the professionalization of the agricultural workforce and helps setting clear career paths for those employed in agriculture.

The pay of flexible workers will also increase under the Agricultural Wages (Wales) Order 2016. The table below specifies the pay rates that will be applicable to full time and part time flexible workers under the Agricultural Wages (Wales) Order 2016.

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6
Part time flexible workers	£6.91	£7.75	£8.52	£9.14	£9.69	£10.46
Full time flexible workers	£7.04	£7.90	£8.69	£9.31	£9.87	£10.66

The AMW regime provides a basic hourly pay for young workers of compulsory school age, meaning workers aged between 13 and 16, acknowledging that young people under the age of 16 would often undertake some work and help out on farms. UK employment legislation does not allow anyone under the age of 13 to be employed. Young workers are only allowed to work part time, specifically 12 hours per week during term time and 25 hours per week during school holidays. Under the new order the hourly rate for young workers will increase from £3.11 per hour to £3.30 per hour, representing a 6% overall uplift.

The 2016 Order maintains the grades and categories of workers as contained in the 2012 Wages Order. The provisions describing that workers must be employed at a particular grade depending on their qualification, experience and requirement to the role have been updated and revised to make the order easier to use and understand. These changes do not affect the current grade structure and the entitlements of existing or future workers employed at a specific grade.

The 2016 Order includes updated schedules of applicable awards and certificates of competence which help determine the Grade of the worker. The revised schedules reflect changes to the educational framework and the titles of certificates since the AWB made its last order in 2012.

The regime also contains provisions for apprentices who undertake training under government approved Apprenticeship schemes. These provisions support succession, skills development and skills retention within the industry all of which are crucial for the future success of agriculture in Wales. Lantra's study from 2012 revealed that 87% of existing vacancies in the agriculture, food and fisheries industry in Wales are classed as hard-to-fill vacancies and 85% as skill shortage vacancies.¹ It is imperative that provisions contained in the

¹ Lantra 2012; data relates to all vacancies in agriculture, forestry and fishing.

new wages order support career progression and the entry of young entrants. Attractive rates offered to apprentices can help the sector to become a viable and appealing career choice.

The statutory provisions within the AMW regime provide hourly remuneration for apprentices, depending on age and the year of their programme. The Agricultural Wages (Wales) Order 2016 will increase the minimum wage rate for apprentices in their first year and for apprentices aged 16-17 in their second year by around 6%, which represents an annual 2% increase between 2012 and 2015, similarly to the increase offered to workers (Grade2-6), flexible workers (Grade 1-6) and young workers.

The overall conditions offered to apprentices under the AMW are more favourable than what is available for apprentices in other industries that are subject to the NMW regulatory framework. This has traditionally been the case and has been retained for the purposes of this interim order for consistency with other wage changes.

The NMW apprentice rate is currently set at £3.30 per hour which is applicable to all apprentices aged 18 or under and to apprentices aged 19 or over who are in their first year. This rate was introduced on 1 October 2015. All other apprentices, i.e. those who are aged 19 or over and who are in the second year of their programme are entitled to the NMW set in accordance with their age.

Under the 2016 order, agricultural apprentices are entitled to a minimum rate of £3.78 per hour in the first year of their apprenticeship scheme. In order to reflect the NMW requirement, the rates for agricultural apprentices in their second year, aged 18-20 and 21 plus, have been revised to the applicable NMW level in the 2016 order.

The increase means around a 6% and 7% increase to the 2012 levels, respectively. The table below outlines the rates that will apply to agricultural apprentices under the Agricultural Wages (Wales) Order 2016. Following the completion of two years of their study scheme, apprentices in their third year and subsequent years of their apprenticeship, will be subject to the minimum pay rates that apply to Grade 2 workers.

Minimum rates of pay for apprentices	
Age	Hourly rate
Year 1 of an Apprenticeship scheme	
All ages	£3.78
Year 2 of an Apprenticeship scheme	
16-17	£3.90
18-20	£5.30
21+	£6.70

The AMW regime offers a wide range of additional benefits and agriculture related allowances. Some of these benefits are linked to the appropriate basic pay rates, such as overtime rates and on call allowance. These provisions

acknowledge the seasonal nature of agricultural work, for example that many workers are required to work above their contracted hours during busy periods. The Agricultural Wages (Wales) Order 2016 will maintain overtime rates at 1.5 times above the applicable basic rates – this will apply to all workers and apprentices. On-call allowance will continue to be specified as the equivalent to two hours of overtime pay at the rate applicable to the worker's grade.

Night work supplement within the AMW regime is applicable to work undertaken between 7pm of one evening and 6am the next morning and is payable on top of the worker's applicable hourly rate. Night work supplement does not apply for the first two hours of night work. The Agricultural Wages (Wales) Order 2016 will increase night work supplement from £1.36 per hour to £1.44, representing an overall 6% increase.

In addition, the AMW regime recognises a number of agriculture related benefits and allowances, including dog allowance and housing allowance. These recognise that workers often require a dog to carry out their duties and that agricultural employees often live on farm in tied accommodation. Housing allowance sets the weekly amount permitted to be deducted from the worker's minimum pay where a house is provided.

The Agricultural Wages (Wales) Order 2016 will maintain these allowances at the same level as specified by the Agricultural Wages (England and Wales) Order 2012, which means that dog allowance will continue to be set at £7.63 per dog (with no limit on the number of dogs) and housing allowance at £1.50 per week for a house and no more than £4.82 per day for other types of accommodation. The level of these allowances have not changed in the same way as minimum wage levels under the AWB which means that it would be difficult to reasonably amend these rates without input from both employees and employers. Once established, the Panel will be in a better position to review both dog and housing allowance.

Similarly the applicable rate for birth and adoption grant which has not changed since 2009 will continue to be specified at £60 per child.

The Agricultural Wages (Wales) Order 2016 will maintain a well-known statutory regime to ensure continuity and introduce minimal disruption to the functioning of the sector. The Order will preserve Agricultural Sick Pay, holiday entitlement and holiday pay as stipulated by the Agricultural Wages (England and Wales) Order 2012. In addition, provisions for output work (or piece work), rest breaks and bereavement leave will remain unchanged. Annex B contains the summary of changes introduced by the Agricultural Wages (Wales) Order 2016.

The main changes to the Agricultural Wages (Wales) Order 2016 will affect minimum pay rates for all grades and categories of workers, increasing wages by around 6%, with the exception of Grade 1 rate that will continue to be set just above NMW level. Overtime rates and on-call allowance will increase by default as these are linked to applicable basic minimum pay rates. The main objective of the Agricultural Wages (Wales) Order 2016 is to address pay

disparities in agriculture until the Panel is able to commence its work but without introducing major disruption to the existing structure of statutory provisions and the functioning of the sector.

Once in place, the Agricultural Advisory Panel will be able to consider the position of both employees and employers and propose appropriate minimum wage levels for all relevant employees employed in agriculture in Wales. The Panel will have access to expert opinion and economic data to help set wages and other agriculture related benefits and allowances. In the meantime, the interim wages order will maintain the well-established grade system and pay differentials between grades, ensuring both the continuity of the statutory provisions and increased wages for workers. The policy intention is that the new order will be a transitional measure and its wages rates will only stay in force until a new Order is made following the recommendation of the Panel

5. Consultation

See Section 10 below. .

6. Regulatory Impact Assessment (RIA)

For the purpose of the RIA, the impact is considered for a 12 months period. The RIA is structured as follows:

- 6.1: *Summary of proposals made by, and objectives of, the Agricultural Wages (Wales) Order*
- 6.2: *Summary of Options 1 and 2*
- 6.3: *Summary findings from the evidence base and literature review*
- 6.4: *Costs and benefits*
- 6.5: *Conclusion*

Annexes linked to the RIA are:

Annex C – Competition Assessment

Annex D: Data and workings

Annex E: Evidence base and literature review

6.1: Summary of proposals made by, and objectives of, the Agricultural Wages (Wales) Order

In summary, the Agricultural Wages (Wales) Order will:

- Increase minimum hourly pay by around 6% for Grade 2-6 of agricultural workers.
- Increase minimum pay for Grade 1 workers to £6.72 per hour.
- Increase minimum hourly pay by 6% for Grade 2-6 of flexible workers.
- Increase minimum rates for all apprentices in the first year of their apprenticeship scheme by 6%.
- Increase minimum rates for apprentices aged 16-18 in the second year of their apprenticeship scheme by 6%.
- Specify minimum rates for apprentices in the second year of their apprenticeship programme aged 18-20 as £5.30 per hour and for apprentices aged 21 and over as £6.70 per hour.
- Increase minimum pay for young workers (aged 13-16) to £3.30 per hour.
- Increase night work supplement to £1.44 per hour.
- Maintain overtime rate as 1.5 above the applicable basic rate of workers.
- Maintain on-call allowance as the sum of equivalent of two hours of overtime pay.
- Maintain dog allowance at £7.63 per dog.
- Maintain housing allowance at £1.50 per week for a house and no more than £4.82 per day for other type of accommodation.
- Maintain birth and adoption grant at £60 per child.
- Maintain the structure and provisions of the AMW regime, including provisions for training costs, employment at a grade, progression to a different Grade, output work, holiday and other leave, holiday pay, agricultural sick pay, rest breaks, provisions for travelling and bad weather
- Update the schedule of relevant qualifications and training that determines the appropriate grade of workers

The main objectives of the Agricultural Wages (Wales) Order 2016 are:

- To encourage the development and retention of necessary skills in the sector
- To help the professionalization of the industry
- To support the entry of young workers
- To provide fair wages to workers and support economic growth in rural communities across Wales in the context of the Tackling Poverty agenda.

6.2: Summary of Options 1 and 2

Option 1 – Do Nothing

This would maintain the statutory pay levels for agricultural workers at 2012 level, in accordance with the provisions of the Agricultural Wages (England and Wales) Order 2012. The 2014 Act stipulates that the Panel, once in place, will prepare and consult on, draft agricultural wages orders. The Panel will be able to negotiate pay levels between representatives of employees and employers

with proposals developed through discussions with key stakeholders, and consulted on, before they are finalised.

However, owing to the time needed to establish the Panel by statutory instrument and appoint independent members via the public appointment process, the earliest that the Panel could be set up would be spring 2016. These dates would also only represent the earliest date that the Panel could begin to start looking at developing a new agricultural wages order. It is not possible to provide an estimate of the date on which an agricultural wages order developed by the Panel would come into force given that would be entirely under the control of the Panel.

While the AWB existed, it produced annual wages orders which means that minimum wage levels for agricultural workers were reviewed and amended regularly up until 2012. It is important that pay rates are updated in line with relevant economic data, ensuring that workers in agriculture are remunerated in accordance with their skills sets and responsibility taken in the context of their employment.

In addition, changes to the NMW and the proposed introduction of the National Living Wage (NLW) from April 2016 would mean that minimum wage levels of Grade 1 and Grade 2 workers would fall below the UK statutory minimum level. The NLW is discussed in more detail in Section 7.

The sector is already facing skills and labour shortages as revealed by Lantra's study from 2012. This study demonstrated that 87% of existing vacancies in the agriculture, food and fisheries industry in Wales are classed as hard-to-fill vacancies and 85% as skill shortage vacancies.² The six grade career structure within the AMW regime which links wages to formal qualification and experience in agriculture, acts as an incentive for skills development and it is important that pay differentials are maintained between grades as this ensures that workers are motivated to acquire additional necessary certificates and qualifications.

The 2014 Act provides provisions that hourly wage levels cannot be below the statutory UK NMW. In accordance with this provision, Grade 1 workers had a pay rise in 2013, 2014 and in 2015. The current NMW is £6.70 which is only 26p below the Grade 2 rate (£6.96 per hour). Traditionally, the AWB maintained a pay differential between Grade 1 and 2 at around 10% in order to underline the transitional nature of Grade 1 (initial Grade) and encourage workers' entry to Grade 2 (standard Grade).

If wages for workers in agriculture are maintained at 2012 level with diminishing pay differentials, this could encourage them to leave the industry and seek employment in other sectors. Also, under Option 1 there is a risk that Grades 1 and 2 would amalgamate, if a new wages order is not introduced by October 2016 when the NMW is expected to increase. Grade 2 would remain at £6.96 per hour which is currently 26p above the NMW. This differential could further

² Lantra 2012; data relates to all vacancies in agriculture, forestry and fishing.

diminish or even disappear due to the NMW changes, thus reducing incentives for Grade 1 workers to upskill so as to progress to Grade 2 although some workers may nonetheless still be incentivised to pursue training to reach even higher grades.

The AMW regime sets rates for young workers under the age of 16 and apprentices to assist the succession of skilled workforce. Having fair and attractive rates for these categories of workers can help encourage the younger generation to choose a career in agriculture. Maintaining all provisions for young workers and apprentices at 2012 level could act as a deterrent for new entrants.

Option 1 implies retention of the AWB's non-wage regulations, such as holidays, accommodation charges, sick pay, on-call allowances, travelling time, night work supplements and dog allowances. The summary of applicable provision can be found in Annex A.

Option 2 – Introduce the Agricultural Wages (Wales) Order 2016 and Increase minimum agricultural wages by applying a fixed uplift to current levels based on the average increase used by the AWB and the NMW rise

The introduction of the wages order will ensure that pay levels for agricultural workers reflect recent economic developments. Agriculture is a low wage sector with mean weekly wages in Wales being some £365 during 2014, compared to £437 for all industries and services.³

The Agricultural Wages (Wales) Order 2016 is taken forward within the context of the Welsh Government's wider Tackling Poverty agenda, assisting rural economies to grow and thrive, further contributing to the wider Welsh economy.

The proposed increase of pay rates for the six categories of workers represents an annual increase of around 2% per year for the period of 2012-2015. It links the methodology of setting wages to the way the AWB operated, in particular in linking the pay level of Grade 1 to the NMW increase and maintaining the pay differentials between grades. In the Welsh Government's opinion, it is essential that the increased skill-set and responsibility of workers is adequately recognised through the statutory minimum wage levels.

Grade 1 is seen as a transitional grade within the AMW regime. The statutory provisions stipulated by the AMW regime allow Grade 1 workers to gain the necessary qualifications to move to Grade 2 following 30 weeks of continuous employment, at the expense of their employer. Available data collated on an England and Wales basis shows that most agricultural workers are employed at Grade 2 level. The differential between Grade 1 and grade 2, and the subsequent higher grades, provides an incentive for the professionalization of

³ ONS, Annual Survey of Hours and Earnings, 2014 [online]
<http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-337425>
Table 5.1a, Weekly Pay (gross), All, Cells F1149, F1154 [accessed on 20 October 2015]

the agricultural workforce and helps setting clear career paths for those employed in agriculture.

The proposed increase sets wages for all grades of workers above the new NMW that came into force on 1 October 2015. Grade 2-6 are also set above the proposed UK NLW which is expected to be introduced in April 2016 for all workers aged 25 and above. In contrast, wages set by the new order will apply to all workers aged 16 and above. Young workers aged 13-16 are provided a different hourly rate with restrictions on their employment status.

The methodology applied to set the increase considers the annual average uplift applied by the AWB in the past and in this sense, maintains a well-established and recognised statutory system, with the aim of introducing minimal disruption to the functioning of the industry during the period of the interim Order.

Under Option 2, wages will increase for all categories of workers, including all agricultural workers, apprentices and young workers. A 6% increase is proposed to overtime rates and on call allowance by default as these rates are linked to basic hourly pay. Overtime rate will be continued to be 1.5 times above basic pay and on-call allowance will remain the equivalent of two hours overtime pay at the worker's grade. Hourly pay for young workers, flexible workers and apprentices will also increase by overall around 6%. Whilst most agriculture related benefits and allowance will remain at 2012 level under both options, night work supplement is proposed to increase from £1.36 per hour to £1.44 per hour.

This option will retain other benefits and allowances, such as holidays and sick pay, accommodation charges, travelling time and dog allowances. For the summary of changes and provisions retained at 2012 level please see Annex B.

6.3: Summary findings from the evidence base and literature review

The impacts of minimum wages are highly contested, and are the subjects of a very large literature.. Annex E contains an evidence base and literature review. Its main findings in relation to all types of minimum wages, most of which are based on a single minimum wage approach, can be summarised as:

- *Employment:* Provided minimum wage levels are set cautiously, their negative effect on employment levels within affected sectors can be minimised. Some evidence has been found for a reduction in hours worked, but this is not conclusive.
- *Wage rates and structure:* If minimum wages are set above current market rates, they act to raise the wage floor, tending to compress the wage structure by raising the wages of the lowest paid relative to others. The effect may be transmitted up the pay structure, leading to wage rises for those being paid more than the statutory minimum, although the

extent to which this has taken place has varied across different minimum wage regimes.

- *In-work poverty*: Minimum wages tend to benefit the lowest-earning working households, thus having some positive impact on in-work poverty, although many poor households are workless.⁴
- *Company level impacts*: Research suggests that firm responses to involuntary increases in wage costs can include increasing prices, increasing labour productivity and accepting reduced profits. However, the relationships between company level responses and minimum wage levels is an under-explored area within the literature.

The impacts of the AWB for England and Wales prior to its abolition in England were the subject of limited study. In summary, the AWB was established in 1948 with a statutory obligation to fix minimum rates of hourly pay for agricultural workers, with membership drawn from representatives of employers, employees and independent members. Minimum rates of pay, including for overtime, were set following negotiations between these representatives. Such rates depended on the worker's status (i.e. seasonal, apprentice etc.) and levels of experience and qualifications, with the labour force divided into six grades from 2005 onwards. For example, entry into grade 3 was dependent on having either been appointed as a team leader, or obtaining vocational qualifications as specified by the AWB.⁵ The AWB defined minimum rates for grades 1 and 2, with grades 3 to 6 being based on a fixed percentage difference between grade 2 and that under consideration.⁶ It also had powers to decide other employment terms and conditions. These included holidays, accommodation charges, sick pay, on-call allowances, travelling time, night work supplements, rest breaks and dog allowances. Its decisions were set out annually in a legally binding Agricultural Wages Order, enforceable by the UK Government's Department for Environment, Food and Rural Affairs (DEFRA), or its predecessors.

In 2010, the UK Government announced its intention to abolish the AWB, with the Enterprise and Regulatory Reform Act 2013 (Commencement No. 1, Transitional Provisions and Savings Order) doing so from June 2013.⁷ DEFRA's impact assessment for the AWB's abolition stated that 'research suggests that workers' wages will fall' but that abolition would 'simplify and remove regulatory and administrative burdens from farmers', while 'wage flexibility may increase the international competitiveness of UK farming' and

⁴ Minimum wages tend to have a greater impact on in-work poverty than on overall poverty. Studies tend to focus on the former, not the latter. See Annex C.

⁵ AWB, A Guide for Workers and Employers [online] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69594/awo2012-guidance.pdf, pp.5-6 [accessed on 14 July 2015]

⁶ The hourly rate for Grade 3 was to be 10 % higher than Grade 2, Grade 4 was to be 18 %, Grade 5 was to be 25 %, while Grade 6 was to be 35 % higher.

⁷ The Enterprise and Regulatory Reform Act 2013 (Commencement No. 1, Transitional Provisions and Savings) Order 2013 [online] <http://www.legislation.gov.uk/ukxi/2013/1455/made> [accessed on 1 June 2015]

'increase employment'.⁸ Research carried out on the AWB as part of the impact assessment found that:

- (a) 'Wages in agriculture had been higher [than a no AWB counterfactual scenario] over the period 1999 to 2010. This may have been the result of having the AWB.'
- (b) 'There would appear to be no robust, consistently positive or negative effect of MWs [minimum wages] on employment over the whole period from 1975-2010.'
- (c) 'The AWB MW has ensured that wages at the bottom of the wage distribution (the 10th percentile) are higher than they otherwise would have been without the AMW. As a consequence it has reduced wage inequality within the agriculture sector'.⁹

6.4: Costs and benefits

This section assesses potential costs and benefits for both options. However, significant limitations exist across data and methodology. Disaggregated and/or updated data for Wales are not always available, while few methodologies exist with which to map the relationship between the agricultural sector and minimum wages, especially in terms of business performance.¹⁰ This lack of methodologies and studies is discussed further in the evidence base and literature review in Annex E. As a result, some impacts cannot be quantified with any degree of accuracy. Where estimates are provided, they are indicative, with Annex D containing workings.

The Agricultural Wages (Wales) Order 2016 outlines a rise of some 6 % across all grades from their 2012 levels. However, increases to Grade 1 have effectively already taken place through the provisions of the UK Government's NMW in 2013 and 2014, with a further 3% increase on 1st October 2015.¹¹

As a result, this RIA takes the following approach to assessing each option:

- **Option 1:** Provides headline estimates as to the impact of a 3% increase on Grade 1 workers, linked to the NMW rise of October 2015. This non-

⁸ DEFRA, Summary Impact Assessment for Abolition of the Agricultural Wages Board, 2012 [online]

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/82649/awb-consult-final-ia-20121219.pdf, pp 1-2 [accessed on 15 July 2015]

⁹ DEFRA, Summary Impact Assessment for Abolition of the Agricultural Wages Board, 2012 [online]

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/82649/awb-consult-final-ia-20121219.pdf, p. 19 [accessed on 12 June 2015]

¹⁰ For example, DEFRA's published impact analysis prior to the UK Government's abolition of the AWB focused on wages, allowances and employment levels.

¹¹ New National Minimum Wage Rates Announced [online]

<https://www.gov.uk/government/news/new-national-minimum-wage-rates-announced> [accessed on 8 June 2015]

devolved matter took place regardless of any decisions made by the Welsh Government. Option 1 is thus an existing baseline.

- **Option 2:** Provides more detailed estimates as to the impact of a 6% increase in minimum wage levels for Grades 2 to 6, aiming to calculate additional impacts that directly relate to Option 2.

Option 1: Do nothing

The broad impacts associated with this option are as follows:

1. The application of the NMW rise of 3% to Grade 1 workers is estimated to have raised the total agricultural wage bill in Wales by some £0.9 million compared to the level before the change in NMW.
2. The application of elasticity estimates to the 3% rise for the estimated Grade 1 labour force of some 3,150 people in Wales (see subsequent sections for methodologies and data assumptions) suggests the change could result in some 20 fewer jobs.
3. By raising Grade 1 wages without any corresponding rises to the minimums for other grades, retaining the status quo would cost the industry less than Option 2 in terms of wage increases. However, it would reduce the grade differentials, especially between Grades 1 and 2, which incentivise career progression and upskilling.

Option 1 would also maintain the grade system, associated employment conditions and administrative costs that have remained in place in Wales. Overall, the costs and benefits associated with this 'do nothing' option are lower than Option 2, the difference in the net cost or benefit of each option is unclear.

Option 2: Introduce the Agricultural Wages (Wales) Order 2016 and Increase agricultural minimum wages by applying a fixed uplift to current levels based on the average increase used by the AWB and the NMW rise

1: Employment

The theory of supply and demand predicts that, in general, an increase in the price of a good or service will lead to decreased demand for such good or service. As a result, demand for labour could be expected to decrease in response to a minimum wage, providing it is set above the prevailing market rate. However, real world evidence shows that, in practice, such declines have been estimated to be frequently modest in scale. These have been measured by a number of studies (see Annex E) and used to calculate minimum wage elasticities.¹²

¹² A measure of the percentage change in purchased quantity or demand with a one % change in price. Employment results within the RIA have been rounded to the nearest five. It should be remembered, however, that such elasticities are not calculated in relation to the specific 6 grade agricultural minimum wage structure and thus their applicability is subject to considerable uncertainty.

The agricultural labour force in Wales during 2013 totalled 52,964 people. 12,528 of these were employed as farm workers, with a further 485 employed as salaried managers (see Table AD.1 in Annex D). This equates to a total waged labour force of 13,013 people. The balance was made up of farmers, partners, directors and spouses. No data are available as to the proportion of the total in each grade in Wales. However, such data are available for the UK as a whole for 2012 from DEFRA, based on existing data, historic data and assumptions. These can be combined with the 2013 data for the total agricultural labour force in Wales to give rough estimates of workforce grade composition (see Table AD.4 in Annex D). These suggest that some 3,150 people may be within Grade 1, with some 9,830 within other grades.

Given this, an application of the mean elasticity estimate (as outlined in Annex E) to the 9,830 workers within Grades 2 to 6 receiving a six % increase could equate to a reduction in employment of some 110 workers. An application of the median elasticity value would lead to statistically insignificant reductions. Price elasticity of demand for labour will vary by farm type and size, given differing market conditions, but elasticities are not available at these levels.

In terms of reductions to hours worked, some evidence exists to show a linkage between minimum wages and such reductions (see Annex E), although this is far from conclusive. It is likely that some farm businesses will seek to absorb higher labour costs through reducing the number of hours worked in addition to other effects on employment, although this cannot be estimated with any degree of accuracy.

2: Earnings

In 2012, DEFRA published a labour force model which was used to calculate gross wage costs at a UK level. Although disaggregated data for Wales were not available, these 2012 UK assumptions and data may be combined with 2013 agricultural labour force data for Wales to calculate rough estimates (see AD.4 to AD.7 in Annex D for workings) of gross annual wage costs. These estimates are also provided in Table 6.4.1.

The AWB regime also includes additional wage costs, ranging from agricultural sick pay (payable at a higher rate than statutory sick pay) to sheep dog allowances. These have not been calculated, as (a) data are not generally available, and (b) the same regulations will apply to both options, meaning that cost differences between the options are unlikely to be significant in overall terms.

Table 6.4.1: Estimated gross annual wage costs, waged agricultural workforce, Wales, 2013 (a - d)

Grade	Full time		Part time		Casual		Totals (£)
	Basic (£)	Overtime (£)	Basic (£)	Overtime (£)	Basic (£)	Overtime (£)	
1	2,600,000	700,000	3,100,000		21,400,000	3,500,000	31,200,000
2	18,800,000	4,900,000	15,500,000		37,400,000	6,100,000	82,800,000
3	4,800,000	1,200,000	1,900,000				7,900,000
4	17,100,000	4,400,000	3,200,000				24,700,000
5	6,600,000	1,700,000	900,000				9,300,000
6	3,300,000	800,000	300,000				4,400,000
Totals (£)	53,200,000	13,700,000	24,900,000		58,800,000	9,700,000	160,300,000

Notes:

- (a) Rounded to nearest £100,000.
- (b) Data assumes that workers are earning no more than the hourly minimum.
- (c) DEFRA assumed that part-time workers do not work overtime.
- (d) Totals may not sum due to rounding.

Source: Authors' calculations

The impact of Option 2 has been calculated using an average 6% increase across Grades 2 to 6. This could raise the total wage bill by these grades by some £7.7 million, assuming no change in the number of workers or hours worked.¹³ This assumes full compliance with the regulations and also that no workers are earning more than the minimum hourly rate, this is unlikely to be the case but evidence is not available on which to estimate the levels of any pay above the minimum rates. As is the case throughout, the estimated increase linked to Option 1 (some £0.9 million)¹⁴ could also occur under Option 2, giving a total impact of some £8.6 million.

Option 2 may create a wages differential between Wales and England, potentially disadvantaging farmers who largely compete with producers based in England, as is the case for the dairy industry. This relative increase to the cost base may accentuate the degree to which decreases in profits/ hours worked, or increases in prices (see following paragraphs) may take place. However, although the AWB in England was abolished in 2013, both the limited time elapsed since the abolition and the breadth of variation within agricultural wages data makes it difficult to draw robust conclusions as to any subsequent differential change in wage levels.¹⁵ Despite this, it is reasonable to conclude that the increased cost base associated with Option 2 will have some negative impact on the sector's competitive positioning with those businesses located in England, but that such impacts are likely to be relatively marginal in overall terms, with farmers likely to be more financially affected by other issues.

¹³ Given the possibility of wage inflation, some of this increase might happen regardless, meaning that not all of this increased cost would be solely attributable to changes in the minimum wage.

¹⁴ In practice, the Grade 1 level is likely to be set at a few pence above this level, but the 6 % figure has been used for calculation purposes.

¹⁵ The 2014 Annual Survey of Hours and Earnings shows a decline of 3.7 % in mean wages at a UK level and a decline of 0.7 % in median wages. The mean increase for Wales was 18.4 %, while no median data are available for Wales. ONS, Annual Survey of Hours and Earnings, 2014 [online] <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-337425> Table 5.1a, Weekly Pay (gross), All, Cells E24, G24 and G1154 [accessed on 14 July 2015]

3: Prices, productivity and profitability

As well as impacting on total wage costs and employee numbers, it is likely that increases to the cost base caused by additional wage costs will be offset by one, some or all of price rises, productivity increases or decreases in profits. Which of these outcomes will prevail in relation to Option 2 depends on a broad range of factors affecting individual farm businesses, such as their profitability, productivity and the competitive environment in which they operate. Existing literature (see Annex E) is unclear on the linkages between minimum wages and these factors, relationships which are opaque, complex and under-explored. No reliable methodologies exist to quantify these, either for regimes based on one minimum wage, or those which feature multiple minimum wages, such as the AMW. For example, DEFRA's published impact analysis on the abolition of the AMW contained no such estimates. However, some qualitative comments can be made.

In relation to price rises, farms in Wales are generally price-takers with limited power to influence the price of their goods. While such influence will vary according to the type and nature of the product being sold, Welsh farmers are generally operating in a national or international market with relatively limited product differentiation. When combined with current market pressures, this means that passing on cost increases via price rises seems unlikely,¹⁶ although farms in some sectors may be more likely than others to have a marginally greater ability to increase prices.

There is limited evidence as to labour productivity on farms in Wales. The scope available to each farm to exploit productivity improvements will depend to a large extent on issues such as technology adoption, characteristics of the farm and farmer and any scope for economies of scale. Overall, there is insufficient evidence to assess the likely outcomes in terms of productivity improvements.

In relation to profitability, there is great variation between farms in Wales. Information from the Farm Business Survey shows the average net profit on a farm for the main farm types. In 2014-15 the overall average annual profit was around £29,000. There is considerable variation across the major farm types. With dairy farms having a figure of around £70,000 and cattle and sheep farms in the Less Favoured Area around 23,000. The latest estimates show just over 10 per cent of farms with an annual profit of at least £75,000 while just under 20 per cent of farms made a loss. The high and low values can be found in all farm types.¹⁷

Research work by the Wales Rural Observatory suggests that what these farm profit figures mean changes according to the farm size. This survey is now rather dated, but the overall pattern of the results is still relevant. The Observatory ran a survey of the overall income for the households of farmers. This includes the income from agriculture and also from any other activities,

¹⁶ As per care homes, see evidence base in Annex E.

¹⁷ Farm Incomes 2014-15, published by Welsh Government
<http://gov.wales/statistics-and-research/farm-incomes/?lang=en>

other employment from household members, investment or rental income and other sources. The survey showed that the number of farms where agriculture is the main income stream for the household is limited. However, these farms tend to be the more productive ones.¹⁸

The sector receives financial support from the public purse. The level of dependence varies widely between farms. Cattle and sheep farms, particularly in the Severely Disadvantaged Area, tend to be more dependent on subsidy while dairy farms and the relatively small number of crop farms tend to be less dependent. However, this is not uniform and the circumstances on individual farms can sometimes break the trend. The dependence on subsidy can leave farms vulnerable to exchange rate fluctuations and changes to policy.

In general terms, increases to the agricultural cost base will impact on some or all of the factors discussed above, but the extent of this cannot be accurately forecast. However, it is reasonable to assume that the greater increase in cost base associated with Option 2 when compared to Option 1 will have more pronounced impacts.

Cost: government enforcement

Under the 2014 Act, the Welsh Ministers are responsible for enforcing the provisions of the 2012 wages order. The current enforcement mechanism is reactive, meaning that the Welsh Government would investigate any claims of potential underpayment and if necessary, issue enforcement notices. The cost of enforcement is estimated as around £3,000 per year. This includes the cost of a wages inspector and support provided by the relevant policy division. Calculations are included in Annex D.

The cost of establishing and running the Agricultural Advisory Panel is considered separately in the RIA that accompanies the Agricultural Advisory Panel for Wales (Establishment) Order 2016.

Benefits

1: Earnings

The proposed uplift could raise the total wages received by agricultural workers by some £7.7 million per annum. Again, the estimated increase linked to Option 1 (some £0.9 million) would also occur under Option 2, giving a total impact of some £8.6 million.

This sum can be expected to have further indirect impacts in terms of localised spending power, with a greater concentration within rural areas with a higher proportion of agricultural workers. For example, data are available on workers by sector across all Lower Super Output Areas (LSOAs) in Wales. These show that while agriculture employs only 1.7 % of Wales' workforce, this rises to 9.8

¹⁸ Farm Household Income Survey, published by the Wales Rural Observatory
http://www.walesruralobservatory.org.uk/sites/default/files/SurveyFarmingHouseholdsWales2010_0.pdf

% in the 129 sparsest populated LSOAs.¹⁹ Other data has identified the importance of agriculture to larger regions of Wales, most notably mid-Wales, where 8.9 % of the workforce was employed within agriculture in 2009.²⁰ While no evidence exists as to the earnings impact of multiple wage floors, the use of such an approach by the AWB means that Option 2 is expected to have greater positive impacts throughout the entire wage distribution structure when compared to a single wage floor. However, there may be cases of reduced hours and employment of some individuals.

2: Poverty including In – work poverty

By raising the earnings floor, minimum wages raise household income, all else being equal, with some impact on in-work poverty, although this could be offset by a reduction in hours worked/employment and would be dampened by the effects of the tax and benefits system whereby workers would pay more tax on increased pay and/or receive reduced benefits.

Impact will vary depending on the proportion of the population in component wage jobs, with the impact on in-work poverty potentially being greater if the workforce is disproportionately full time. Of the 13,103 waged workers in agriculture within Wales during 2013, 3,424 (26 %) were full time, with the balance being part-time, seasonal or casual.²¹ This is much lower than the equivalent figure for the workforce in Wales as a whole. Official data on weekly employee wages within agriculture²² after 2012 shows considerable variation in weekly wages over time. Such wages fell by an average of 6.6 % in 2012-13,²³ compared to an average rise of 18.4 % in 2013-14 (with hours worked increasing in both years).²⁴

Increasing minimum wages throughout the grade system is likely to amplify any impact accruing from Option 1. For example, Option 2 will see minimum wages for Grade 3 workers rise from £7.66 to £8.12, with the new level being above that of the existing living wage determined by the Living Wage Foundation (£7.85). This could positively impact some 530 people (see Table AD.4) in Annex D. However, a more significant local impact could exist, given the importance of agricultural employment to some rural communities. Despite this, its total impact on overall in-work poverty, and on rural poverty in general,

¹⁹ Welsh Government, Industrial sector of workers by size of built up area, 2011 [online] <http://gov.wales/docs/statistics/2015/150520-industrial-sector-workers-size-built-up-area-2011-en.pdf>, p.11. [accessed on 14 July 2015]

²⁰ UK Commission for Employment and Skills, The National Strategic Skills Audit for Wales 2011 – Volume 2: Evidence Report [online] <http://dera.ioe.ac.uk/3771/1/nssa-wales-2011-evidence-report.pdf>, p. 35. [accessed on 21 October 2015]

²¹ Welsh Government, Welsh Agricultural Statistics, 2012 and 2013, pp. 56-57, authors' calculations. Salaried managers assumed to be full-time.

²² Defined as crop and animal production, hunting and related service activities.

²³ ONS, Annual Survey of Hours and Earnings, 2013 [online] <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-328216>, Table 5.1a, Weekly Pay (gross), All, G1154 [accessed on 25 June 2015]

²⁴ ONS, Annual Survey of Hours and Earnings, 2014 [online] <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-337425>, Table 5.1a, Weekly Pay (gross), All, Cells G1154 [accessed on 23 June 2015]

will be limited, and should be kept in perspective given the relatively small numbers involved.

3: Training and skills

A primary purpose of an agricultural wages structure, such as that created by the AWB, is to motivate skills acquisition through the linkage of skills attainment to progression through a fixed grading system. As part of this, AWB's provisions set out a guarantee of training for entry-level employees once they had worked for the same employer for 30 weeks.²⁵

At present, evidence suggests a relatively low level of training within the agricultural sector in Wales. Some 200 land based apprenticeships are currently in progress,²⁶ while some 1,700 workers undertook training between 2008 and 2014 that was part-funded by the Welsh Government's Farming Connect service. In terms of skill needs, Lantra's 2012 survey identified skills shortages within the agriculture, food and fisheries industry in Wales.²⁷ Similar findings were reported by the Welsh Government in 2012, when agriculture was ranked as having the second most significant current skills deficit out of the 22 sectors considered.²⁸

A fully operating AMW regime enables a clearer career structure to be created within the agricultural sector. This will continue to act as a framework for developing and retaining skills across the entire sector, although intervention from the Welsh Government and other actors would still be necessary in terms of funding and support, especially if profitability is reduced by wage increases. As well as facilitating greater skills development such a framework could offer more attractive prospects to new entrants, hence supporting the ongoing viability of the sector. Training has an important role here, with the average age of the 1,700 workers receiving such training being 32, lower than the average age of farmers in Wales, estimated at between 55 and 65.²⁹

Overall, the increase to agricultural minimum wage levels in Wales offers the opportunity to incentivise skills acquisition within the agricultural sector, potentially increasing the number of people receiving all types of training within the sector, and potentially enhancing the supply of skilled labour.

6.5: Conclusion

Potential costs that are additional to Option 2 can be summarised as:

²⁵ AWB, A Guide for Workers and Employers [online] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/69594/awo2012-guidance.pdf , p.5 [accessed on 14 July 2015]

²⁶ Welsh Government data [unpublished]

²⁷ Lantra, The Sector Skills Assessment Nation Summary, Wales (2012). Data relates to all vacancies in agriculture, forestry and fishing.

²⁸ Welsh Government, National Strategic Skills Audit for Wales, 2012 [online] <http://gov.wales/docs/caecd/research/130228-national-strategic-skills-audit-2012.pdf> , p.133. [accessed on 21 October 2015]

²⁹ Welsh Government [unpublished data],

1. *Employment*: The proposed increases may lead to some 110 fewer agricultural jobs in Wales. Reductions in hours worked may take place, but cannot be quantified.
2. *Earnings*: The total transfer could be raised by some £7.7 million per annum.
3. *Prices, productivity and profitability*: All else given, this is likely to put downward pressure on farm business profits, but with an unclear effect on productivity. Output price rises enabling margins to be maintained seem unlikely.
4. *Government enforcement*: It is likely that administrative costs accruing to the Welsh Government would be broadly similar under both options as the Welsh Government is already enforcing the AMW regime that has been preserved under the 2014 Act.

Potential benefits that are additional to Option 2 can be summarised as:

1. *Earnings*: The proposed increases could transfer some £7.7 million per annum to agricultural workers (from employers) in terms of their total gross income, with impacts throughout the wages distribution.
2. *In-work poverty*: Option 2 would be expected to reduce in-work poverty to some extent (to the extent that the higher hourly wage rates are not offset by reduced hours/employment), with a geographic focus on areas with a higher concentration of agricultural employment.
3. *Training and skills*: Uprating minimum wages throughout the grade structure and for all categories of workers, including apprentices, will provide greater incentives for workers to acquire skills and progress through the grade system. Option 2 would increase wages for all grades in line with previous arrangements under the AWB for England and Wales and thus preserve this incentive structure, while Option 1 would reduce (but not eliminate) the financial incentive to move from Grade 1 to Grade 2. It is reasonable to conclude that Option 2 could be more likely to support upskilling within the sector, as well as potentially having a positive impact on efficiency.

In addition, the new wages order will increase some of the allowances and benefits included under the AMW regime. This includes overtime rates and on-call allowance that will be raised by default as these levels are linked to basic hourly pay. Night work supplement will also increase from £1.39 per hour to £1.44 per hour.

While relatively small in scale, agriculture remains an important component within the Welsh economy, especially so within some rural areas. Overall, Option 2 provides an established and previously accepted approach to the setting of minimum wages and other aspects of the employment relationship. Its raising of wages will also benefit the waged workforce (though could potentially adversely impact on some individual workers), while the opportunity it offers to support further upskilling within the industry is particularly important. However, given Option 2's implicit concentration of three years' worth of NMW increases into one year, its impact on the sector's cost base may lead to

greater negative short-term consequences in terms of hours worked and/or profitability, when compared to Option 1.

7. National Living Wage (NLW)

In the Summer Budget 2015 the UK government announced their intention to introduce a new NLW from April 2016 which would increase the minimum wage for workers over the age of 25 from £6.70 to £7.20 per hour with additional increases planned for subsequent years. It is not yet clear how this policy will be implemented but for the purposes of this RIA we assume that the NLW will become the new statutory minimum wage for workers over the age of 25 in April 2016. The announced NLW rate of £7.20 per hour is higher than the current Grade 2 wage rate so we assume that, as of April 2016, Grade 1 and 2 workers over the age of 25 will instead be paid £7.20 per hour in line with the NLW. This imposes additional costs on any farmers employing Grade 1 or 2 workers over the age of 25 with potential impacts on employment and hours (as discussed elsewhere) however, as all businesses in the UK will be subject to these increased costs, including farmers in the rest of the UK, we expect the impact to be tempered as the market may accommodate some level of price increase to compensate for the increased costs and Welsh farmers will not be uniquely affected by the change.

Due to the rate of the NLW it would effectively amalgamate Grades 1 and 2 for workers over the age of 25, under option 1. Data is not available on the number of workers over 25 in each grade, however, the change in policy would remove any financial incentive to move from Grade 1 to Grade 2 for these workers. Younger workers would, however, still have a financial incentive to up-skill to move from Grade 1 to Grade 2. Given that Grade 1 is considered to be a transitional grade with the right to appropriate training to reach Grade 2 after 30 weeks, we assume that the number of workers over the age of 25 in Grade 1 will be small. As such the effects of this change under option 1 is expected to be minimal. Under option 2, the proposed Grade 2 wage (of £7.39) is above the proposed NLW rate so will be unaffected, however the proposed Grade 1 wage (of £6.72) is assumed to automatically increase for any workers above the age of 25. In this case a financial incentive to move from Grade 1 to Grade 2 would remain, albeit a significantly reduced incentive, but as this group is expected to be small, and Grade 1 is a transitional grade, we do not propose to increase the Grade 1 wage to reflect the introduction of the NLW nor to introduce a different Grade 1 wage for workers over 25.

8. Sector impacts

1: Impact on local government

No evidence of significant differential impact.

2: Impact on voluntary sector

No evidence of significant differential impact.

3: Impact on small businesses

The increase to pay levels will affect farm businesses, including small businesses in the sector. Until 2013, the AWB set new wages for agricultural workers annually and the industry was accustomed to this system. The current proposed uplift of around 6% for all grades and categories of workers (except for Grade 1 worker) takes into consideration that the statutory minimum wage rates have not changed since 2013. The increase represents around a 2% annual increase between 2013 and 2015. It is important to acknowledge though that these rates only set statutory minimum wage levels and that employers may pay higher wages to workers. Nevertheless it is important that statutory pay is increased to ensure that all workers in agriculture receive fair wages in line with their skills and the level of responsibilities taken on farm.

The majority of farms in Wales are small businesses and the policy has been developed to take account of this. As a result, the impact of Option 2 is not expected to impose any additional or disproportionate impact on small businesses. The policy will impact on those businesses employing workers covered by the provisions but data is not available to estimate what proportion of these are small businesses.

9. Duties

1: Equality Impact Assessment

In 2013, some 16 % of all farm workers in the Welsh agriculture were female.³⁰ However, some 28 % of regular part time workers were female. Both options involve the retention of contractual protections, and there would not appear to be significant differences in their impacts on relative gender positioning within the agricultural labour market.

There is no evidence to suggest a significant differential impact on disabled people, or in relation to gender and gender reassignment, religion and belief and non-belief, sexual orientation, pregnancy and maternity or civil partnerships.

A full Equality Impact Assessment has been prepared and can be accessed at <http://gov.wales/topics/environmentcountryside/farmingandcountryside/agricultural-sector-wales-act-2014/interim-order/?lang=en>

2: The Welsh language

The agricultural sector has a greater economic and social importance in rural areas, many of which have higher levels of Welsh language ability. While both options will have some impact on employment totals and conditions in such areas, the differences in terms of language impact are likely to be small.

³⁰ Welsh Government, Welsh Agricultural Statistics, 2012 and 2013 [online] <http://gov.wales/docs/statistics/2014/141113-welsh-agricultural-statistics-2012-2013-ency.pdf> pp. 56-57 [accessed on 11 June 2015], authors' calculations. No data available for salaried managers.

The full Welsh Language Impact Assessment can be accessed at the following link:

<http://gov.wales/topics/environmentcountryside/farmingandcountryside/agricultural-sector-wales-act-2014/interim-order/?lang=en>

3: Sustainable Development

As is the case for language impact, differences between the impacts of both options are likely to be relatively small in scale, and will depend on the mechanisms by which the sector absorbs any increases to its cost base.

10. Consultation

A 12 week public consultation on proposals for a wages order opened on 11 May 2015 and closed on 3 August 2015. The consultation document was available on the Welsh Government's website and on request from the Sustainable Land Management Branch. Key stakeholders, including the farming unions, UNITE, agricultural colleges and industry bodies such as Hybu Cig Cymru and National Sheep Association were sent the consultation documents directly on the day the consultation opened. The consultation was widely publicised through Gwlad and Twitter.

The public consultation was structured around two main options:

- Option 1 - to do nothing and allow the Panel, once established, to review the terms and conditions of employment in the agricultural sector in Wales and propose a new agricultural wages order.
- Option 2 – Increase agricultural wages by applying a fixed uplift to current levels based on the average increase used by the AWB and the NMW rise.

Option 2 proposed an average of around a 6% wage increase of all categories of workers,. Under option 2, the proposed increase would also apply to overtime rates, on-call allowance and night work supplement. Other allowances and benefits, such as housing offset, dog allowance and birth and adoption grant would be maintained at 2012 level - the Panel will be better placed to review these rates in the future.

Altogether seven responses were received during the consultation period. None of the respondents supported option 1. Five respondents agreed with option 2, one respondent provided no preference for either of the options and one respondent did not express an opinion.

The consultation summary and the Welsh Government's response is available at the following link:

<http://gov.wales/consultations/environmentandcountryside/consultation-on-the-proposals-for-the-interim-agricultural-wage/?lang=en>

11. Competition Assessment

Please see Annex C.

12. Post implementation review

The Welsh Government will monitor the impact of the 2016 wages order, and any subsequent orders proposed by the Agricultural Advisory Panel, on the agricultural sector, in particular recording any changes in the number of workers, monitoring the number of workers attending training and the number of apprentices attending Welsh institutions. The Welsh Government will continue to have a dialogue with key stakeholders and collate feedback on the impact of the new legislation. A helpline number will be set up to respond to queries related to the 2016 order and the applicable provisions of the AMW regime. All of this information will help to assess the effectiveness of the order.

The implementation of the 2014 Act will be reviewed as part of the statutory requirement stipulated by the 2014 Act. Section 13 specifies that the Welsh Ministers must provide a report on the operation and effect of the Act within three years of the Act receiving Royal Assent, meaning 30 July 2017. The report will contain information on the impact of the Act on agricultural workers, employers and the sector in general. The implementation report will be laid in the National Assembly and published by the Welsh Government.

Annex A

The Agricultural Wages (England and Wales) Order 2012 Summary of provisions

Grades and categories of workers

The Order recognises different categories of workers, based on vocational qualifications and relevant certificate of competence (specified in Schedule 1 of the Order), aggregate period of experience in agriculture, including time spent in training, period of continuous employment and the level of independence and responsibility given on the farm. The Order differentiates between the following grades:

- Grade 1 – Initial Grade
- Grade 2 – Standard Grade
- Grade 3 – Lead worker
- Grade 4 – Craft Grade
- Grade 5 – Supervisory Grade
- Grade 6 – Management Grade

Provisions for flexible workers

The Order stipulates that a worker is a flexible worker if they have a Flexible Working Agreement for at least a year and follow a flexible pattern of working. The order also differentiates between the categories of full time flexible worker and part time flexible worker. Flexible workers are provided the minimum pay rates, differentiated by grades, as other agricultural workers. In addition, overtime pay rates are provided for flexible workers, applicable to their grade or category, if they work more than their contractual hours, or work during public and bank holidays.

Entry to a grade

The Order stipulates that a worker is entitled to enter the applicable grade once they inform their employer of the necessary relevant qualification they hold.

Apprentices

According to the Order, apprentices are those workers who are employed under specified government arrangements. In Wales, the arrangements are known as Foundation Modern Apprenticeships or Modern Apprenticeships. In the first and second year of their apprenticeship there is a special rate of pay, but other minimum terms and conditions under the Order are the same as those that would apply to a grade 2 worker. In the third and any subsequent year of apprenticeship both pay and other minimum terms and conditions are the same as for a grade 2 worker.

Agricultural Minimum Wage (AMW) rates

The current pay scale for agricultural workers includes 6 different grades above the NMW, currently at £6.19 per hour. The grades differentiate between the level of expertise and experience.

The table below sets out the weekly rates based on standard working hours and the standard rate per hour (but not the overtime rate):

<i>Grade</i>	<i>Grade 6</i>	<i>Grade 5</i>	<i>Grade 4</i>	<i>Grade 3</i>	<i>Grade 2</i>	<i>Grade 1</i>
<i>Weekly rate</i>	£366.60	£339.30	£320.19	£298.74	£271.44	£242.19
<i>Hourly rate</i>	£9.40	£8.70	£8.21	£7.66	£6.96	£6.21

Under the AMW regime, full time and part time flexible workers are set different hourly rates based on the number of days over which the contracted hours are worked – please see table below:

Flexible workers			
	Number of days worked	Rate per hour	Overtime rate per hour
Grade 1	4 to 5	6.52	9.32
	6	6.64	9.32
Grade 2	4 to 5	7.31	10.44
	6	7.45	10.44
Grade 3	4 to 5	8.04	11.49
	6	8.20	11.49
Grade 4	4 to 5	8.62	12.32
	6	8.78	12.32
Grade 5	4 to 5	9.14	13.05
	6	9.31	13.05
Grade 6	4 to 5	9.87	14.10
	6	10.06	14.10

There is specific rate provided under Grade 1 for workers of compulsory school age, currently this is set at £3.11 per hour.

Apprentice rates are set out in the table below.

Level /age	Weekly rate	Hourly rate	Overtime rate per hour
Year 1 of Apprenticeship (any age)	£139.23	£3.57	£5.36
Year 2 of Apprenticeship (age 16-17)	£143.52	£3.68	£5.52
Year 2 of Apprenticeship (age 18-20)	£194.22	£4.98	£7.47
Year 2 of Apprenticeship (age 21+)	£241.41	£6.19	£9.29

Overtime rates

Agricultural workers, other than flexible workers, are entitled to be paid at overtime rates when they work above their agreed hours or above the basic 39 hours, work on public or bank holidays, or during their annual leave entitlement. Overtime rates are provided for all grades, including workers of compulsory school age and apprentices. The basic overtime rates are as follows:

Table 4: Overtime rates

Grade	Hourly overtime rate
Grade 1 of compulsory school age	£4.67
Grade 1 above compulsory school age	£9.32
Grade 2	£10.44
Grade 3	£11.49
Grade 4	£12.32
Grade 5	£13.05
Grade 6	£14.10

Provisions for travelling

Under the Order, workers are entitled for pay if travelling for the purpose of their work, for example when travelling from one field to another.

Training

The Order stipulates that applicable minimum rate of pay has to be paid to the worker for training undertaken during working hours. This also applies to travelling time for the purpose of training. In addition, the cost of any agreed training has to be paid for by the employer, together with any necessary expenses for board and lodging while the worker is undertaking the training. These provisions are not applicable for apprenticeships.

Any grade 1 worker who has been employed continually for 30 weeks by the same employer is entitled to undertake necessary training to enter grade 2.

Bad weather

Under the Order, the worker must be paid for any contractual work that falls within a period of bad weather that prevents them from completing their work.

Piece work

Where piece work earnings fall below the amount due under the Order for each hour worked, an employer must make up the pay to the appropriate hourly Minimum rate.

Housing allowance

The Order describes the weekly amount permitted to be deducted from the worker's minimum pay where a house is provided, according to the contract of employment. The deductible amount is currently set at £1.50 per week.

Dog allowance

If it is necessary for a worker to keep a dog (or dogs) to enable them to do their job, then they should be paid a sum of not less than £7.63 per week for each dog.

On-call allowance

The Order stipulates a level of pay as on-call allowance for workers who, on a day they are not at work, agree to be contactable and are able to reach the place where they may be required to work within an agreed time. The on-call allowance is equivalent to two hours of overtime pay at the rate applicable to the worker's grade.

Night work supplement

The specified night work supplement is set at £1.36 per hour (not applicable for workers of compulsory school age) by the Order.

Birth and Adoption grant

Birth and adoption grants are available to workers with continuous employment as stipulated by the Order.

Non-employed trainees and overtime pay for trainees

Trainees who are not engaged as employees in respect of the hours covered by their training contracts or work experience fall outside the provisions of the Order.

In terms of overtime pay, a trainee who has worked overtime is entitled for each of those additional hours of work to be paid not less than the minimum overtime rate applicable to their grade or category under the Order for that additional work.

Agricultural Sick Pay

According to the Order, a worker shall be entitled to receive wages in respect of their sickness absence from work. Under the Agricultural Sick Pay scheme a worker who has been continuously employed by the same employer for 52 weeks, and is ill, receives payment of at least the appropriate agricultural minimum wage for their normal hours worked, including hours that would be worked as guaranteed overtime. All such hours are paid at the basic rate for the relevant grade of the worker.

For trainees, the Order stipulates that trainees are entitled to agricultural sick pay under specific circumstances that relates to the length of time spend with the same employer.

Rest breaks

The Order stipulates provisions for rest breaks - where a worker (aged 18 or over) has a daily working time of more than five and a half hours, the worker is entitled to an uninterrupted period of not less than 30 minutes rest break.

Holiday and other leave

According to the Order, all workers employed by the same employer throughout the leave year shall be entitled to annual leave calculated in accordance the following table.

Table 5 Annual Leave Entitlements

Annual Leave for workers who work for the whole annual leave year for the same employer							
Days worked each week by a worker	More than 6	More than 5 but not more than 6	More than 4 but not more than 5	More than 3 but nor more than 4	More than 2 but not more than 3	More than 1 but not more than 2	1 or less
Annual leave entitlement (days)	38	35	31	25	20	13	7.5

These entitlements apply to all workers including casual workers who accumulate annual leave on pro-rata basis.

Holiday pay

The worker is entitled to holiday pay in respect of each day of annual leave taken by them under the Order.

The amount of holiday pay is calculated by dividing the worker's weekly wage as follows:

- Where the worker's gross pay each week does not vary, the amount of the worker's weekly wage is the amount which is payable by the employer under the worker's contract of employment if the employee works throughout their contractual hours in a week.
- Where the worker's gross pay varies from week to week, the amount of the worker's weekly wage shall be the worker's average weekly wage in a period of 12 weeks calculated by adding together the amount of the worker's gross pay in each of the 12 weeks and dividing by 12.

Bereavement leave

The order stipulates provisions for bereavement leave for workers, depending on whether the worker's bereavement relates to a person in Category A (a parent of the worker; a son/daughter of the worker; the worker's spouse or civil partner or someone the worker lives as husband and wife without being officially married) or to a person in Category B (a brother/ sister of the worker; a grandparent of the worker; a grandchild of the worker). The entitlement is 4 days for category A and 2 days for category B.

Annex B

The Agricultural Wages (Wales) Order 2016 – Summary of Changes

Minimum Rates of Pay:

- Revised minimum hourly pay for the six grades of workers as outlined in the table below:

Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6
6.72	7.39	8.12	8.72	9.23	9.97

- Revised minimum hourly pay for flexible workers as outlined in the table below

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6
Part time flexible workers	£6.91	£7.75	£8.52	£9.14	£9.69	£10.46
Full time flexible workers	£7.04	£7.90	£8.69	£9.31	£9.87	£10.66

- Revised minimum hourly pay for children of compulsory school age set at £3.30 per hour.
- Revised minimum rates for apprentices as outlined in the table below

Minimum rates of pay for apprentices	
Age	Hourly rate
Year 1 of an Apprenticeship scheme	
All ages	£3.78
Year 2 of an Apprenticeship scheme	
16-17	£3.90
18-20	£5.30
21+	£6.70

- Overtime entitlement is set as 1.5 times the basic minimum rate consistently for all categories of workers.
- The term “piece work” replaced by “output work” in line with the definition used in the NMW Act

Agricultural workers - Grades and categories of workers

- Updated and revised descriptions of the requirements for Grade 2-6 workers.
-
- A new provision recognising equivalent qualifications in addition to those listed in Schedules 1-3 and accredited NVQ certificates.
- Updated and revised description of apprentices in line with UK legislation
- Revised provisions for progression of workers which retains the requirement for the worker to inform their employer of acquired qualifications and maintain documentary evidence of relevant qualifications and experience.

Agricultural Allowances

- Increased night work supplement specified at £1.44 per hour.
- All other allowances and benefits are set at the same level as specified in the Agricultural Wages (England and Wales) Order 2012. For details, please see Annex A.

Schedules

- Updated Schedules 1-3 of “Awards and certificates of competence” which can assist in determining the grade of the worker

Annex C

Competition Assessment

Question	Answer (yes/no)
Q1: In the market(s) affected by the new regulation, does any firm have more than 10 percent market share?	No
Q2: In the market(s) affected by the new regulation, does any firm have more than 20 percent market share?	No
Q3: In the market(s) affected by the new regulation, do the largest three firms together have at least 50 percent market share?	No
Q4: Would the costs of the regulation affect some firms substantially more than others?	No
Q5: Is the regulation likely to affect the market structure, changing the number or size of businesses/organisation?	No
Q6: Would the regulation lead to higher set-up costs for new or potential suppliers that existing suppliers do not have to meet?	No
Q7: Would the regulation lead to higher ongoing costs for new or potential suppliers that existing suppliers do not have to meet?	No
Q8: Is the sector characterised by rapid technological change?	No
Q9: Would the regulation restrict the ability of suppliers to choose the price, quality, range or location of their products?	No

Annex D

Data and Workings

Employment

Table AD.1: Persons engaged in work on agricultural holdings, Wales, 2013

Type of labour	Number of people
<i>1: Total farmers, partners, directors and spouses</i>	
Full-time	17,873
Part-time	22,078
<i>2: Salaried managers</i>	
	485
<i>3: Farm workers:</i>	
Regular full-time:	2,939
Regular part-time (a)	3,191
<i>4: Seasonal or casual workers:</i>	
	6,398
Total farm workers (3 + 4)	12,528
Total waged labour force (2 + 3 + 4)	13,013
Total labour force (1 + 2 + 3 + 4)	52,964

Note:

(a) Defined as working 39 hours per week or less.

Source: Welsh Government, *Welsh Agricultural Statistics, 2012 and 2013* [online]

<http://gov.wales/docs/statistics/2014/141113-welsh-agricultural-statistics-2012-2013-ency.pdf>
pp. 56-57 [accessed on 11 June 2015], authors' calculations.

Earnings

Table AD.2: Persons engaged in work on agricultural holdings, Wales, 2013

	Type of labour (from Table 1)	Number of people	Proportion of waged labour force (per cent)
<i>Full-time</i>	<i>Salaried Managers</i>	485	4
	<i>Regular full-time farm workers</i>	2,939	23
Total full-time		3,424	26
Part-time	Regular part-time farm workers	3,191	25
Casual	Seasonal or casual workers	6,398	49
Total waged labour force		13,013	

Source: Authors' calculations

Table AD.3: Profile of workers at each AWB grade (average percentage), UK, 2007-2010 (a)

Grade	Full time	Part time	Casual
1	6	14	39
2	39	63	61
3	9	7	
4	30	11	
5	11	3	
6	5	1	

Note:

(a) Totals may not sum due to rounding.

Source: Defra Farm Labour and Wage Statistics, 2012. [online]

<http://webarchive.nationalarchives.gov.uk/20130123162956/http://www.defra.gov.uk/statistics/files/defra-stats-foodfarm-farmmanage-earnings-labour2012-120627.pdf>, p.13 [accessed on 9 June 2015]

Table AD.4 combines data from Tables AD.2 and AD.3 to provide rough estimates of the number of full time, part-time and casual staff within each grade in Wales.

Table AD.4: Estimated numbers of workers in each AWB grade, Wales, 2013 (a - b)

Grade	Full time	Part time	Casual	Totals
1	205	447	2,495	3,150
2	1,335	2,010	3,903	7,250
3	308	223		530
4	1,027	351		1,380
5	377	96		470
6	171	32		200
Totals	3,420	3,160	6,400	12,980

Notes:

(a) Totals rounded to nearest 10.

(b) Total does not sum to 13,013 due to rounding within Table AD.3.

Source: Authors' calculations

Table AD.5 provides DEFRA's estimates of the average hours worked by full time, part-time and casual staff, while Table AD.6 provides the most recent AWB minimum wages for the agricultural industry.

Table AD.5: Hours worked by worker type, UK, 2003 to 2010 average

Worker Type	Total hours worked	Basic Hours	Overtime hours (a)
Full time	45.7	39.0	6.7
Part time	21.3	21.3	0.0
Casual	29.4	26.5	2.9

Note:

(a) Assumed that part-time workers do not work overtime.

Source: Defra Farm Labour and Wage Statistics, 2012. [online]

<http://webarchive.nationalarchives.gov.uk/20130123162956/http://www.defra.gov.uk/statistics/files/defra-stats-foodfarm-farmmanage-earnings-labour2012-120627.pdf>, p.12 [accessed on 9 June 2015]

Table AD.6: AWB hourly pay rates, 2012

Grade	Pay (£)	Overtime pay (£)
1	6.21	9.32
2	6.96	10.44
3	7.66	11.49
4	8.21	12.32
5	8.70	13.05
6	9.40	14.10

Source: UK Government, Agricultural Workers' Rights [online] <https://www.gov.uk/agricultural-workers-rights/pay-and-overtime> [accessed on 9 June 2015]

Table AD.7 combines these data within Tables AD.4, AD.5 and AD.6 to provide a rough estimate of the weekly gross wage costs in Wales across each grade for full time, part time and casual workers. It also multiplies these costs by 52 to yield an estimate of annual wage costs.

Table AD.7: Estimated gross annual wage costs for the waged agricultural workforce, Wales, 2013 (a - d) ³¹

Grade	Full time		Part time		Casual		Totals (£)
	Basic (£)	Overtime (£)	Basic (£)	Overtime (£)	Basic (£)	Overtime (£)	
1	2,587,287	667,082	3,072,765		21,352,546	3,506,922	31,187,000
2	18,848,446	4,857,100	15,497,425		37,431,095	6,144,349	82,778,000
3	4,787,105	1,233,600	1,895,119				7,916,000
4	17,102,757	4,409,038	3,191,873				24,704,000
5	6,645,286	1,712,439	922,466				9,280,000
6	3,263,620	841,010	332,229				4,437,000
Totals (£)	53,235,000	13,720,000	24,912,000		58,784,000	9,651,000	160,302,000

Notes:

(a) Totals rounded to nearest £100,000.

(b) Assumes that workers are earning no more than the minimum levels.

(c) DEFRA assumed that part-time workers do not work overtime.

(d) Totals may not sum due to rounding.

Source: Authors' calculations

In terms of the impact of each option:

Option 1: Links the lowest rate to changes in the NMW (3 per cent uplift from 1st October 2015). This equates to some £0.9 million.

Option 2: Uplifts Grades 2 to 6 by some 6 per cent. This equates to some £7.7 million. Impacts linked to Option 1 would also occur.

It is possible that even in the absence of an agricultural minimum wage, wages might rise. However, the impact calculations take no account of background wage inflation given the variable nature of data. For example, recent data available at a GB level covers September to November 2014, giving a 1.7 per cent rate of wage inflation when compared to the same period in the previous year.³² However, the most recent data for Wales covers April 2013 to April 2014. These include a mean overall rate for Wales of 0.1 per cent, and a mean of 11.7 per cent for agriculture.³³

³¹ A test for reasonableness: Using the same methodology, the total wage cost for 2012 was some £162 million. This equates to **some 9.8 per cent of the UK wage bill** for 2012 of £1.66 billion (Defra Farm Labour and Wage Statistics, 2012, p.14). Wales' 2012 waged agricultural labour force of some 13,300 (*Welsh Agricultural Statistics, 2012 and 2013, pp. 56-57*) was **some 10.4 per cent of the UK's 2012 total employment** of 128,000 (DEFRA, p.4).

³² ONS, UK Labour Market, January 2015 [online]

http://www.ons.gov.uk/ons/dcp171778_390755.pdf, p.1. [accessed on 21 June 2015]. Data includes bonuses.

³³ ONS, Annual Survey of Hours and Earnings, 2014 [online]

<http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-337425> Table 5.1a, Weekly Pay (gross), All, Cells G16, G1153 [accessed on 12 June 2015]

Assumptions behind enforcement calculations:

Number of cases per year: 2

Input needed per case:

EO: 4 days

HEO: 5 days

Grade 7: 0.5 days

Gross cost per day:

EO: £122.20

HEO: £162.60

Grade 7: £274.26

Total estimated cost per case:

£1,438.93

Total estimated cost per year:

£2,877.86

Pay assumptions based on Pay Band Costs and Standardisation of DRC
Forecasting at

[https://documents.hf.wales.gov.uk/id:A12037573/document/versions/published.](https://documents.hf.wales.gov.uk/id:A12037573/document/versions/published)

Labour input assumptions based on estimates from policy team.

Annex E: Evidence base and literature review on minimum wage impact

The impacts of minimum wages are highly contested, and have been studied within the UK and abroad, most notably in the United States (US). UK studies have examined two structures, with the first being the Wages Councils, vested with statutory powers to regulate wages, hours and holidays in different sectors prior to their 1993 abolition. The second is the National Minimum Wage (NMW), introduced in 1997. Few studies focus on the AWB. Finally, extensive, and contested, studies have been carried out in the US on state-level, single-floor, minimum wages.

Employment

The most controversial aspect of minimum wages are their impact on employment. There is no consensus within the global literature, with a recent analysis noting that 'few economic relations are more strongly held or vigorously defended than the adverse employment consequences of a rise in the minimum wage'.³⁴ While US focused studies are divided, differences are far less pronounced for the UK. However, although 'there was surprisingly little research on employment effects of the Wages Councils' by the time of their 1993 abolition,³⁵ a subsequent study of linkages between their minimum wages and employment suggested that such wages had either no effect, or a positive effect, on employment.³⁶ Little published work has been carried out on the impact of the AWB, but a 1995 paper found no evidence that its minimum wages reduced the level of agricultural employment. Instead, the effect was weakly positive, if statistically insignificant.³⁷ Finally, research commissioned by DEFRA for its assessment of the abolition of the AWB found no consistently positive or negative effect of minimum wages on agricultural employment between 1975 and 2010.³⁸

In general terms, demand for an item or service, including labour, will usually fall as its price increases. The responsiveness of demand to price is known as its elasticity,³⁹ with such relationships being determined by a very broad range

³⁴ Megan de Linde Leonard, T.D. Stanley and Hristos Doucouliagos, 'Does the UK Minimum Wage Reduce Employment? A Meta Regression Analysis', *British Journal of Industrial Relations*, Vol. 52:3 (2014), pp. 499-520 (p. 499)

³⁵ Richard Dickens, Paul Gregg, Stephen Machin, Alan Machin and Jonathan Wadsworth, 'Wages Councils: Was There a Case for Abolition?', *British Journal of Industrial Relations*, Vol 31:4 (1993), pp. 515- 528 (p.523)

³⁶ Stephen Machin and Alan Manning, 'The Effects of Minimum Wages on Wage Dispersion and Employment: Evidence from the UK Wages Councils', *Industrial and Labour Relations Review*, 47:2 (1994), pp.319-329.

³⁷ Richard Dickens, Stephen Machin, Alan Manning, David Metcalf, Jonathan Wadsworth and S Woodland, 'The Effect of Minimum Wages on UK Agriculture', *Journal of Agricultural Economics*, Vol. 46 (1995), pp. 1-19.

³⁸ DEFRA, Summary Impact Assessment for Abolition of the Agricultural Wages Board, 2012 [online] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/82649/awb-consult-final-ia-20121219.pdf, p. 19 [accessed on 12 June 2015]

³⁹ A measure of the percentage change in purchased quantity or demand with a one per cent change in price.

of factors ranging from the proportion of wage costs within total costs, the degree of mobility within the labour market and the extent to which mechanization is possible. The introduction of the NMW was accompanied by concerns as to its potential impact on employment levels. However, a meta-analysis⁴⁰ of 236 estimated minimum wage elasticities from 16 UK studies was carried out in 2014. This examined the 'entire UK research literature on minimum wage effects', finding no evidence of a 'practically relevant employment effect', with the analysis controlling for the possibility that minimum wages might be raised only when employment is high and is expected to grow.⁴¹ It calculated the average elasticity estimate as to minimum wage impact on employment as -0.19, a figure that was 'exactly, to two decimal places, the average minimum wage elasticity uncovered amongst 1,474 US estimates'.⁴² The UK and US medians were much smaller than the averages, with the UK median being -0.03.⁴³ For example, a study carried out in 2004 on the impact of the UK NMW on the employment probabilities of low-wage workers found 'no significant adverse employment effects' for 'any of the four demographic groups considered (adult and youth, men and women) or in any of the three data sets used'.⁴⁴

However, this overall result does not preclude greater negative impact within selected sectors, with some evidence that the residential care home industry,⁴⁵ and potentially retail food,⁴⁶ have been more adversely affected by minimum wage increases. The study relating to the care home industry noted its potential vulnerability to minimum wages for reasons including its preponderance of low-waged workers, as well as how some care home residents had their fees paid by the then Department for Social Security. These fees were capped, meaning that it was harder for care homes to pass on their cost increases via higher prices. Data are not available for agriculture, but the care home study may have some relevance, given its relatively low wages and limited influence over prices. However, care should be taken in applying the care home example to agriculture in Wales. Negative impacts of minimum wages in agriculture may be mitigated by two factors. First, many farm businesses are characterised by diverse income sources (including off-farm income), while farms operate in a broad variety of markets. Such diversity of

⁴⁰ A statistical analysis of a large collection of results from individual studies for the purpose of integrating the findings.

⁴¹ Megan de Linde Leonard & others, 'Does the UK Minimum Wage Reduce Employment? A Meta Regression Analysis', *British Journal of Employment Relations*, Vol. 52:3 (2014), pp. 499-520 (p. 506)

⁴² *Ibid*, p.502.

⁴³ The averages (means) are the grand total divided by the number of data points, while the median is the value that sits in the middle of a series of numbers sorted into ascending order.

⁴⁴ Mark B.Stewart, 'The Impact of the Introduction of the UK Minimum Wage on the Employment Probabilities of Low-Wage Workers', *Journal of the European Economic Association*, March 2004 2:1, pp. 67-97 (p.67).

⁴⁵ Stephen Machin, Lupin Rahman and Alan Manning, 'Where the Minimum Wage Bites Hard: Introduction of Minimum Wages to a Low Wage Sector', *Journal of the European Economic Association* 1:1 (2003), pp. 154-180.

⁴⁶ Megan de Linde Leonard & others, 'Does the UK Minimum Wage Reduce Employment? A Meta Regression Analysis', *British Journal of Employment Relations*, Vol. 52:3 (2014), pp. 499-520 (p. 514)

income and markets may act as to cushion the impact of wages in a way that is not possible for care homes.

Overall, it appears that provided (national) minimum wages are set cautiously, their employment effect can be minimised. The reasons as to the NMW's relative lack of an effect are contested, but the Low Pay Commission (LPC), responsible for advising government, has tended to propose minimum wage adjustments only of a scale that minimized their employment effect. As part of this process, the LPC's recommendations are based on judgements, not on set formulae, and take account of five broad areas; (1) the impact of the NMW to date, (2) the current state of the economy and labour market, (3) economic prospects, (4) evidence from stakeholders and (5) any other considerations such as legislation impacting on low-paid workers, low paying sectors or small firms.⁴⁷

Other explanations for the relative lack of an overall negative impact have included employment impacts such as reductions in hours worked and company behavioural impacts such as increasing labour productivity through greater upskilling and usage of technology, reducing profit margins and higher prices.⁴⁸ However, such reactions will vary by company size, type and characteristic. In relation to hours worked, there is always a possibility that when faced with higher hourly labour costs, firms will seek to control payroll expenditure by reducing the number of hours worked, or by employing cheaper labour. Some evidence has been found for a reduction in hours worked, with a 2008 study of the NMW finding that the minimum wage may have reduced the basic hours of low-wage workers by between one and two hours per week,⁴⁹ although estimates using alternative data sources were typically less significant.⁵⁰ HM Treasury has also published analysis indicating that between 2007 and 2013, the growth of weekly wages for NMW workers has tended to be less than the rate of growth in the hourly NMW rate, although this trend was reversed for 2014.⁵¹ However, this analysis does not consider the impact of difficult economic circumstances, which may account for much of the lower rate of weekly earnings growth between 2007 and 2013.

Wage rates and structure

⁴⁷ Tim Butcher, 'Still Evidence Based: The Role of Policy Evaluation in Recession and beyond: the case of the National Minimum Wage', National Institute Economic Review, No. 219: 2012, R 26-40 (R.28)

⁴⁸ David Metcalf, 'Why has the British National Minimum Wage had Little or No Impact on Employment?', Journal of Industrial Relations, Vol 50:3, pp. 489-512 (pp. 500-506)

⁴⁹ Mark B. Stewart and Joanna Swaffield, 'The Other Margin: Do Minimum Wages Cause Working Hours Adjustments for Low-Wage Workers?' *Economica*, Vol 75: 297 (2008), pp. 148-167 (p.148)

⁵⁰ The estimate of one to two hours a week was derived from the employer-based New Earnings Survey. The typically less significant estimates derive from the employee-based Labour Force Survey.

⁵¹ BIS, National Minimum Wage: Government Evidence for the Low Pay Commission on the Additional Investment [online]

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/273345/bis-14-534-national-minimum-wage-government-evidence-for-the-low-pay-commission-on-the-additional-assessment-2014.pdf [accessed on 4 June 2015], p.10.

Statutory minimum wages act to raise the wage floor, tending to compress the wage structure by raising the wages of the lowest paid relative to other workers. The effect may be transmitted up the pay structure, leading to wage rises for those being paid more than the statutory minimum. A study shortly after the abolition of the bulk of the UK Wages Councils noted that 'a common complaint by employers was that increases often acted as a 'going rate' which forced employers to raise the wages of other workers to maintain pay differentials'.⁵² More recent studies, comparing the periods before and after the impact of the NMW, have confirmed positive impacts. For example, a 2005 study found that between the introduction of the NMW in 1997 and 2003, hourly earnings for the lowest paid third of the hourly earnings distribution increased above the median, in contrast to the previous period, while increases were greater for those who were lowest paid.⁵³ Overall, the introduction of the NMW eliminated much of the tail of very low wages that previously existed, with its tempering of pay inequality being substantial. It has also been noted that there was a larger fall in wage inequality (between 1997 and 2010) in segments where the level of pay was lower. For example, a study found that larger falls were apparent for women than men, for young workers as compared to older workers and in low wage areas such as Wales, although this noted the 'lack [of] models that can explain even the broad facts about the impact of the minimum wage on the wage distribution'.⁵⁴ However, increases at the bottom level of the wages distribution appeared to moderate after 2007, with a 2012 study suggesting that while the NMW led to compression of earnings at the bottom of the distribution, this did not extend much beyond the lowest quartile in more recent years,⁵⁵ although this still equates to a significant impact on wage inequality given that the direct impact of the NMW generally falls on the bottom 5 per cent of workers.⁵⁶ In relation to the AMW, research commissioned by DEFRA for its impact assessment on the abolition of the AWB stated that minimum wages 'ensured that wages at the bottom of the wage distribution (the 10th percentile) are higher than they would otherwise have been without the AMW', thus reducing wage inequality'⁵⁷

In-work poverty

⁵² Richard Dickens, Paul Gregg, Stephen Machin, Alan Machin and Jonathan Wadsworth, 'Wages Councils: Was There a Case for Abolition?', *British Journal of Industrial Relations*, Vol 31:4 (1993), pp. 515- 528 (p.516-517)

⁵³ Tim Butcher, 'The Hourly Earnings Distribution before and after the National Minimum Wage', *Labour Market Trends*, 2005, pp. 427-435 (p. 430)

⁵⁴ Tim Butcher, Richard Dickens and Alan Manning, 'Minimum Wages and Wage Inequality: Some Theory and an Application to the UK', LSE: CEP Discussion Paper No 1177, November 2012, p.21.

⁵⁵ Tim Butcher, 'Still Evidence Based: The Role of Policy Evaluation in Recession and beyond: the case of the National Minimum Wage', *National Institute Economic Review*, No. 219: 2012, R 26-40 (R.31)

⁵⁶ Tim Butcher, Richard Dickens and Alan Manning, 'Minimum Wages and Wage Inequality: Some Theory and an Application to the UK', LSE: CEP Discussion Paper No 1177, November 2012.

⁵⁷ DEFRA, Summary Impact Assessment for Abolition of the Agricultural Wages Board, 2012 [online]

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/82649/awb-consult-final-ia-20121219.pdf, p. 19 [accessed on 12 June 2015]

Minimum wages have been characterised as a blunt mechanism to combat poverty. First, many poor households are workless, so will not be directly impacted by wages regulation, unless higher wages facilitate greater take-up of employment opportunities if available. Second, many recipients of minimum wages are in component wage jobs, with their household income primarily determined by the earnings of other household members, with over 40 per cent of all UK low-paid workers being in households within the top half of the income distribution.⁵⁸ Conversely, the majority of UK low paid workers are in the lower half, while many recipients of minimum wages work in single-earner households or are primary breadwinners. The NMW will have had some impact on in-work poverty by supporting the wages of the lowest paid workers. Also, its ongoing impact in compressing the lower end of the wages distribution will have had similar impacts, especially within sectors and locations characterised by low wages. Although evidence is not available from the era of the wages councils as to the relative effectiveness of multiple wage floors compared to single wage floors, the use of multiple floors may accentuate impact on in work poverty, given that more workers will be affected than would be the case for a single wage floor. Overall, a recent overview of the evidence stated that the 'minimum wage does tend to benefit the lowest-earning working households, though nobody should conclude that it alone can solve in-work poverty.'⁵⁹

Company level impacts

Although research as to the impact of minimum wages has tended to focus on employment, some exists as to productivity, profits and prices. Wage regulation, whether through collective bargaining or minimum wages, has been characterised as a 'productivity whip' encouraging employers to upgrade production systems. Any substitution of capital for labour as part of upgrading will tend to reduce employment, while greater effort, better organisation and more investment in human capital may achieve the opposite. Research on labour productivity growth in general tends to demonstrate linkages between the NMW and productivity that are positive but not statistically significant.⁶⁰ There is limited evidence of positive linkages between the NMW and increases in human capital investment, such as training. For example, a study of the introduction of the NMW found no evidence that it decreased the training of affected workers and some evidence that it increased the incidence.⁶¹ Evidence as to the relationship between multiple wage floors and training is not available.

If labour cost increases created by a minimum wage can be passed on to consumers via higher prices, this may reduce impact on employment. Research in this area is limited, with a 2008 summary of US studies concluding

⁵⁸ Institute for Fiscal Studies, *The Green Budget* (London: IFS, 2014), p.148.

⁵⁹ Alan Manning, *Minimum Wages: A View from the UK*, *Perspektiven der Wirtschaftspolitik*, Vol 14.1-2 (2013), p.63.

⁶⁰ David Metcalf, *Why has the British National Minimum Wages had Little or No Impact on Employment?*, *Journal of Industrial Relations*, Vol 50:3, pp. 489-512 (pp. 501-502)

⁶¹ Wiji Arulampalan, Alison Booth and Mark Bryan, *Training and the New Minimum Wage*, *Economic Journal*, Vol. 114(494), pp. 87-94.

that the impacts of minimum wage rises on prices were limited, with a 10 per cent increase raising food prices by some 4 per cent and overall prices by 0.4 per cent.⁶² However, a 2010 study focusing on the UK found that prices in several sectors most affected by the NMW, such as takeaway foods, canteen meals and hotel services rose, faster than prices in other sectors, with effects being significant in the four years after the NMW's introduction.⁶³ Despite this, current market pressures within the agricultural sector and the characteristics of the outputs of many farm businesses mean that passing on cost increases via price rises seems unlikely, in general.

It is also possible that the minimum wages may lead to decreasing profit levels, given their explicitly redistributive objectives. In general, studies find some evidence that the NMW has acted to squeeze profits, especially where companies have been unable to use other forms of adjustment. A report commissioned by the LPC in 2006 found that 'profitability was significantly reduced by the minimum wage', although 'low wage firms were not forced out of business by the higher wage costs'.⁶⁴ Overall, research in this area remains limited, with a 2011 study on the NMW noting 'almost a complete absence of any study directly examining the impact of minimum wages on firm profitability'.⁶⁵ It reported 'evidence showing wages were significantly raised, and firm profitability was significantly reduced by the minimum wage', stating that its findings 'can be interpreted as consistent' with a model 'where wage gains from minimum wages map into profit reductions'.⁶⁶ No data exists within the literature on the impact of minimum wages on profits within agriculture. However, if output prices (or other efficiency gains from improved use of inputs) can't be achieved then, all else given, this would be expected to put downward pressure on profits.

Finally, given that one of the AWB's most important roles was to create a structure that incentivised training, it is worth briefly reviewing the evidence on training's economic role. In general terms across all sectors, education and training are seen as crucial investments in future economic performance. While many businesses in the UK operate with a relatively low-skilled workforce and a multitude of factors contribute to profitability over and above workforce skills, there is some evidence that better skilled workers are more productive. Reviews of the evidence note a generally positive relationship between both skill level, training and job performance measures with establishment (workplace) data for the UK indicating that the commercial survival of enterprises are linked both to the average level of workforce education and to average training investment. There is no reason to believe that linkages between training and the economic

⁶² Sara Lemos, 'A Survey of the Effects of the Minimum Wage on Prices', *Journal of Economic Surveys*, Vol. 22:1 (2008), pp. 187-212 (p.208)

⁶³ Jonathan Wadsworth, 'Did the National Minimum Wages Affect UK Prices?', *Fiscal Studies*, 31 (1), 2010, pp. 81-120 .

⁶⁴ Mirko Draca, Stephen Machin and John Van Reenen, 'The Impact of the National Minimum Wage on Profits and Prices: Report for Low Pay Commission' (London: LPC, 2006), p.21.

⁶⁵ Mirko Draca, Stephen Machin, and John Van Reenen, 'Minimum Wages and Firm Profitability', *American Economic Journal: Applied Economics* 3 (January 2011), pp. 129-151 (p. 130)

⁶⁶ *Ibid*, p.130.

output of the agricultural sector in Wales are any less significant than in other sectors. For example, in 2012, LANTRA highlighted the significance of a well-functioning labour market in the agricultural sector in Wales and a skilled and motivated labour force which can contribute to a productive and sustainable sector.