

Title: Abolition of the Agricultural Wages Board IA No: Defra1462 Lead department or agency: Defra Other departments or agencies:	Impact Assessment (IA)		
	Date: 19/12/2012		
	Stage: Final		
	Source of intervention: Domestic		
	Type of measure: Primary legislation		
Contact for enquiries: Lead economist: Mario Deconti (Tel: 0207-238-1188) Policy lead: Judith Marsden (Tel:0207-238-5748/07827-821645)			
Summary: Intervention and Options			RPC Opinion: N/A

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Measure qualifies as One-Out?
£0.8m	£0-279.7m	-£0-32.5m	No
			N/A

What is the problem under consideration? Why is government intervention necessary?

The agricultural labour market is currently regulated as the AWB is required to set minimum wage rates for different categories of agricultural workers in England & Wales & has discretionary powers to set other terms & conditions. Intervention is now needed to modify or remove this regulation, & its associated administrative burden, to bring agriculture in line with the wider employment market. Current wage levels are generally above the AWO minima & are underpinned by the National Minimum Wage. The wage setting framework is not consistent with modern working practices & the current framework may also raise wages above market clearing levels for some types of work & reduce employment.

What are the policy objectives and the intended effects?

The policy objective is to reduce intervention in the agricultural labour market through the abolition of the AWB & cessation of setting specific agricultural wage rates & terms & conditions. The intended effects are to simplify & remove regulatory & administrative burden from farmers & make it easier for them to employ workers & set market wages as well as terms & conditions. The administrative burden is likely to be higher if farmers employ agricultural workers subject to the AWO & other non-agricultural workers who are subject to the NMW & wider employment legislation. Wage flexibility may increase the international competitiveness of UK farming, increase employment & have positive supply-side benefits.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Baseline. Maintain the status quo

1. Abolition of the AWB.

The preferred option is abolition of the AWB. This will remove intervention in the agricultural wages market & regulatory burden from farmers.

Will the policy be reviewed? It will not be reviewed. If applicable, set review date: Month/Year					
Does implementation go beyond minimum EU requirements?				N/A	
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		Micro Yes	< 20 Yes	Small Yes	Medium Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)				Traded: N/A	Non-traded: N/A

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister: _____ Date: _____

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2012	PV Base Year 2012	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £0.8m	High: £0.8m	Best Estimate: £0.8m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	£0m	£0
High	0	£35.0m	£279.7m
Best Estimate	0	£32.5m	£259.0m

Description and scale of key monetised costs by 'main affected groups'

Research suggests that workers' wages may fall by £0-34.5m p.a after 10 years. For new contracts, the change in value of annual leave if employers implement statutory instead of AWO terms is £0-13.0m p.a. after 10 years. Employers may choose to pay the statutory minimum for sick pay, a reduction of £0-0.9m p.a after 10 years. The changes in these payments are a cost to workers. Employment costs which are transfer payments to government and others by farmers, will fall as wages fall, £0-21.0m. The ranges around all these figures reflect the uncertainty, and that there may in fact be no reductions in wages or worker benefits.

Other key non-monetised costs by 'main affected groups'

Employers will need to familiarise themselves with relevant legislation instead of the AWO. For those that aren't already on wages/conditions different to AWB minima, workers and employers will need to spend time on negotiations to agree pay levels & other terms & conditions individually. Some monetary allowances will no longer be received but there is little information on their take-up or possible retention so it is not possible to value these (see page 11). If there is less annual leave for new entrants, workers may have a loss of utility higher than their wage.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	£0.01m	£0.8m
High	0	£35.1m	£280.5m
Best Estimate	0	£32.6m	£259.8m

Description and scale of key monetised benefits by 'main affected groups'

Research suggests that wages may fall by £0-34.5m p.a after 10 years. For new contracts, the change in value of annual leave if employers implement statutory instead of AWO terms is £0-13.0m p.a after 10 years. Employers may pay the statutory minimum for sick pay, a reduction of £0-0.9m p.a. after 10 years. The changes in these payments are a benefit to farmers. Employment costs may fall £0-21.0m. The net reduction in public administration costs of running the AWB will be £0.8m. The same caveat as above around uncertainty also applies.

Other key non-monetised benefits by 'main affected groups'

There will be reduction in administrative burden through simplification & time saving for farm businesses, as they will no longer need to consider both the AMW & NMW regimes. Workers and employers will no longer have to familiarise themselves with the annual AWO. Employers and workers will have greater flexibility to agree pay and reward which suit their own circumstances, e.g. annual salaries. There may also be increased employment of workers which could benefit local economies.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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Impact on wages: the research underpinning our max estimates contains uncertainties due to the relatively new methodology used and assumes that the labour market conditions in the fisheries and agricultural sectors were subject to similar trends between 1999 and 2010. The estimated max reduction in wages per year of 16p per hour is an average and does not take into account labour market volatility from year to year. Max estimates: there is uncertainty as to whether employers will choose to erode these benefits.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OIOO?	Measure qualifies as
Costs: £0m	Benefits: £0-32.5m	Net: £0-32.5m	No	N/A

Evidence Base

Introduction

The future of the Agricultural Wages Board (AWB) is part of the wider Government review of employment law and commitment to simplify employment legislation. In summary, the intention is to remove government intervention (albeit through an independent statutory body) in the agricultural labour market and setting of terms and conditions; in particular to remove wage minima across six designated grades and hence improve the functioning of the market.

Government intervention is no longer necessary because:

- It is considered that there is no market failure in the agricultural labour market such that workers require protection which is over and above other statutory terms and conditions and wider employment legislation applying to all workers.
- The majority of earners subject to the Agricultural Wages Order receive wages above the existing AWO minima; and the income of the lowest paid is underpinned by the National Minimum Wage.

The intended effects of the policy are to:

- Allow a more efficient agricultural labour market to emerge where the demand for and supply of labour are in balance and farmers can offer market pay, terms and conditions. Currently 58% of permanent workers over the age of 22 are paid above the AWO minima and farmers will continue to offer those terms necessary to attract skilled labour (Defra Earnings and Hours Survey 2010).
- Remove the distortionary effect of minimum wages to allow wage flexibility, which may lead to an increase the international competitiveness of some sectors of UK farming. There may also be a small increase in employment in the sector, which will have demand-side benefits through increased expenditure in local rural economies.
- Simplify employment legislation in agriculture to make it easier for farm businesses to employ workers and offer modern employment packages.
- Remove regulatory and administrative burden arising from the prescriptive nature of the Agricultural Wages Order and duplication with the National Minimum Wage.

This Impact Assessment looks at the impact for agricultural workers and employers of the abolition of the Agricultural Wages Board.

The Government is also proposing to abolish the 15 Agricultural Wages Committees (AWCs) in England and the 16 Agricultural Dwelling House Advisory Committees (ADHACs) in England.

The 15 Agricultural Wages Committees in England are largely redundant bodies, the functions of which have lapsed or been taken over by wider employment legislation. The role of ADHACs in providing advice on re-housing agricultural workers with protected tenancies has significantly declined due to changes in housing legislation. The number of applications to Agricultural Dwelling House Advisory Committees in England has declined significantly over the last few years, and there were only 8 referrals in 2011. Consequently the impact of their abolition will be very small and it would be a disproportionate effort to collect evidence to carry out a detailed analysis. Therefore the impact of abolition of AWCs and ADHACs is not considered in this Impact Assessment.

If you would like to comment on the assumptions and estimates made in the Impact Assessment, you can e-mail your comments to awbconsultation@defra.gsi.gov.uk or send by post to Dermot McInerney at Defra, Area 8E, 9, Millbank, c/o 17, Smith Square, LONDON SW1P 3JR. Please send comments by 12 November 2012.

Background

Agricultural workers in England and Wales represent about 0.5% of the total working population. Annex A sets out some general information about employment in agriculture in England and Wales.

It is a legal requirement that each agricultural worker employed in England and Wales is paid in accordance with the relevant Agricultural Wages Order and receives the other minimum terms and conditions set out in the Order, which is made each year by the Agricultural Wages Board for England and Wales.

The origins of the Agricultural Wages Board and agricultural wage regulations date from the Corn Production Act 1917 and the Agricultural Wages (Regulation) Acts 1924 to 1947. After the Second World War, the legislation was consolidated in the Agricultural Wages Act 1948, which provided for the establishment of an independent Agricultural Wages Board for England and Wales, and which remains the current legislation.

Agricultural Wages Board

The Board comprises eight representatives of employers nominated by the National Farmers Union (NFU) and eight representatives of workers nominated by the trade union UNITE and five independent members (including the Chairman) appointed by

the Secretary of State and Welsh Government Ministers. Under the 1948 Act, the Board has a statutory duty to set an agricultural minimum wage (AMW) rate. It also has discretionary powers to determine other terms and conditions for agricultural workers. The Board meets each year to make an Order which sets the agricultural minimum wage rate and other terms and conditions for agricultural workers which will apply as from 1 October of that year. Under the provisions of the legislation, the Agricultural Wages Board is not allowed to set the AMW at a rate which is lower than the National Minimum Wage rate.

The Board sets minimum rates of pay through negotiation. Each year, in advance of the negotiation, the Unite delegation submits a pay claim for the forthcoming year and the NFU delegation submits a formal response. The two sides of the Board undertake their own economic research in support of their proposals. However, this evidence is not the determining factor. Where the parties are unable to reach an agreement the rates (and any other changes to terms and conditions) are settled by a simple majority vote of all members including the independent members.

Agricultural Minimum Wage Rates

The current Agricultural Wages Order for 2012 provides for six different grades of agricultural worker determined according to responsibilities/qualifications with a different agricultural minimum wage for each grade. Current rates are as follows:

Grade 1	£ 6.21	Grade 2	£ 6.96	Grade 3	£ 7.66
Grade 4	£ 8.21	Grade 5	£ 8.70	Grade 6	£ 9.40

The National Minimum Wage from 1 October 2012, for workers 21 and over, is slightly below the Grade 1 rate at £6.19 an hour.

The agricultural minimum wage rates and National Minimum Wage rate are gross of tax or National Insurance deductions.

Other terms and conditions of the Agricultural Wages Order

The Agricultural Wages Order provides also for other terms and conditions. These are:

- Specific rates for overtime, payable after 8 hours work a day or 39 hours a week;
- Payment of on call and night allowance;
- Enhanced annual leave entitlement, (up to 31 days for the equivalent of a full time 5 day worker);
- Entitlement to bereavement leave (up to 4 days paid leave for the death of a parent or child and up to 2 days paid leave for the death of a sibling, grandparent or grandchild);
- Payment of birth or adoption grant;

- Payment of dog allowance;
- Specific pay rates for apprentices under the age of 19, or in the first year of their apprenticeship;
- Specific pay rates for workers of compulsory school age;
- Entitlement to the agricultural minimum wage for agricultural students on a work placement of less than one year;
- Entitlement to agricultural wages sick pay after 52 weeks service, at a rate which is at least a worker's basic pay for normal hours worked.

A summary of the main agricultural wage rates and allowances for 2012 is attached at Annex B.

Provision of Accommodation

The Agricultural Wages Order also sets down specific terms and conditions in respect of the provision of accommodation to workers. These are that:

- Where a worker's contract requires the worker to live in a house provided by the employer, the employer may deduct not more than £1.50 per week.
- Where a worker's contract requires the worker to live in accommodation (other than a house), the employer may deduct not more than £4.82 per day, provided that the worker has worked for a minimum of 15 hours for their employer.
- If the accommodation is provided to a worker, but it is not a condition of their contract that they are required to live there, then the National Minimum Wage accommodation offset provisions apply. These require that a worker must be paid at least the correct National Minimum Wage rate for the number of hours worked minus £4.82 for each day that accommodation has been provided.

Enforcement of the Agricultural Minimum Wage

Under the Agricultural Wages Act 1948, the Secretary of State and Welsh Ministers have powers to appoint officers to enforce the agricultural minimum wage.

In practice, initial queries from workers and employers about the Agricultural Wages Order are directed to the Department of Business Innovation and Skills' Pay and Work Rights Helpline. Complaints about underpayment and breaches of the terms and conditions of the Agricultural Wages Order are then passed on to the Agricultural Wages Team in Defra, which will investigate the complaint. If necessary, Defra will ask the Rural Payments Agency in England and the Rural Inspectorate in Wales to carry out an agricultural wages inspection to obtain information in order to reach a decision on whether an underpayment or breach of the terms and conditions of the Wages Order has occurred. If Defra considers that a worker has a valid complaint and an employer is not willing to reimburse the workers, Defra may take enforcement action on behalf of the worker, including taking a case to an Employment Tribunal if necessary.

The Gangmasters Licensing Authority regulates labour providers who supply workers in the agricultural sector. Compliance with the relevant terms and conditions of the Agricultural Wages Order (AWO) is regarded by the GLA as a “critical” standard for determining whether or not to issue a labour provider with a licence to operate in the GLA regulated sectors. The GLA can determine to revoke a licence where a labour provider does not remunerate workers in accordance with the AWO.

Staffing of the Agricultural Wages Board

The Agricultural Wages Board does not employ staff directly and secretariat support is provided by Defra. This equates to approximately 50% of a full time post at Higher Executive Officer (HEO) level.

Problem under Consideration

The problem under consideration is whether there is continued justification for intervention in the agricultural labour market and different statutory terms and conditions for employment of workers in agriculture in England and Wales, or whether they should be brought within the same employment legislation as workers in all other sectors of the economy.

i) The employment environment for agriculture has changed

The agricultural wages legislation is based on circumstances prevailing at the beginning of the twentieth century when agricultural workers were often isolated, immobile and dependent on the local landowner for their livelihood and home. Therefore they needed the specific protection of a body which could determine wage rates on their behalf.

Today the situation is vastly different. Employment legislation and protection for all workers has improved dramatically, both at national and EU level. In particular there has been the introduction of the National Minimum Wage Act and the Working Time Regulations. There is also greater awareness of workers' rights and the promotion of ethical trading. Moreover, social and technological changes mean that whilst some agricultural workers may still live and work in isolated rural areas, they are likely to be far more mobile and have better communications through mobile telephones and the internet.

There have also been huge developments in agriculture itself, with scientific progress to improve yields and livestock performance, increased mechanisation and technological innovation. This has led to changes in the nature and size of the workforce with less dependency on low skilled manual labour, but a demand for workers with the right skills and qualifications to carry out farming in the modern era, who are well placed to negotiate terms and conditions above the minima prescribed in the Agricultural Wages Order.

Given all the factors above, the Government consider it is no longer justified that the agriculture sector alone should continue to be subject to a different and more burdensome set of employment rules than all other sectors of the economy.

ii) Simplification and Increasing flexibility of employment practices

The agricultural wages legislation is outdated and inhibits modern employment practices - for example the way the agricultural minimum wage is enforced effectively dissuades businesses from offering annual salaries. The enforcement provisions in the Agricultural Wages Act derive from the enforcement provisions of the National Minimum Wage (NMW) Act 1998. Under these provisions an agricultural worker must receive not less than the agricultural minimum wage for the hours that he has worked in each pay reference period. While the NMW Act provides for a worker to be paid a salary for an agreed number of hours per year,

these provisions are not incorporated in the Agricultural Wages Act. Hence under the terms of the Agricultural Wages Order, a farming business may find that it has acted unlawfully if pay averaged over the hours worked in the course of the year results in a worker receiving less than the AMW for the hours worked during the pay reference period, which could result in an employer facing enforcement action.

The requirements of the Agricultural Wages Order are prescriptive and constrain flexibility between workers and employers to reach their own agreements. There is evidence that some employers try to circumvent the provisions of the Order, e.g. the requirement to pay overtime after 8 hours a day or 39 hours a week, by restricting the amount of hours of work or by operating as different companies. Similarly the requirement to pay agricultural wages sick pay after 52 weeks, over and above the normal statutory sick pay arrangements (SSP) which provide for SSP where a worker has been absent due to illness for at least 4 days, imposes an additional burden on farmers when compared to employers in other sectors. These constraints hamper the possibilities of the industry to offer flexible career opportunities and are neither beneficial to workers and employers, nor for the long term future of the industry.

Despite attempts at simplification, the Agricultural Wages Order remains complex and difficult to understand – with the current Order running to sixty pages. Since May 2009 initial queries about the Agricultural Wages Order are directed to the Pay and Work Rights Helpline, but previously were dealt with by the Defra Agricultural Wages Helpline. The table below sets out the number of telephone queries received since 2005/2006.

Table 1. Number of calls received by the Defra Agricultural Wages Helpline and the Pay and Work Rights Helpline about the agricultural minimum wage

Telephone queries on the Agricultural Wages Order	Calls to the Defra Agricultural Wages Helpline (1 October to 30 September)				Calls to the Pay and Work Rights Helpline	
	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011
	6	7	8	*	*	+
Total calls	4780	3217	4965	1671	4060	1,250
Calls from employers	#	#	#	#	2018	603
Calls from workers	#	#	#	#	1326	453
Calls from third parties	#	#	#	#	716	194
<p>*Figures for Agricultural Wages Helpline until May 2009 and for the Pay and Work Rights Helpline from 2009. + Figures from May 2009 when the Pay and Work Rights Helpline was set up # A breakdown of calls data is not available prior to 2009/2010, but the Agricultural Wages Team estimate that the split of calls between employers and workers would be roughly half and half.</p>						

The figures show that queries about the Order are just as likely to come from employers who are unsure how to apply the provisions as from workers who are concerned that they may have been underpaid. The figures do not include e-mail queries about the Order of which about one thousand are received on average per year.

iii) Removing administrative burden and duplication with the National Minimum Wage

Minimum terms and conditions of employment for workers, other than agricultural workers, are set out in the National Minimum Wage Act 1998 and the Working Time Regulations 1998. Agricultural workers are entitled to the more generous terms and conditions of employment set out in the Agricultural Wages Order, which enhance wider employment legislation. Broadly speaking, the Agriculture Wages Order covers any activity normally considered to be mainstream farming, such as arable, poultry or dairy farming and livestock rearing. Forestry and horticulture are also covered, as is the processing and packing of produce prior to the first point of sale. Please see Annex C for a table setting out the difference between the agricultural minimum wage regime and general employment legislation.

In practice, because work which is within scope of the agricultural minimum wage cannot be carried out in isolation from other work covered by the National Minimum Wage, many agricultural and horticultural businesses often have to operate both the agricultural minimum wage and the national minimum wage regimes. This duplication of effort is a cost to farmers in terms of the time necessary to familiarise and engage with both sets of regulations.

For example, a farm secretary would not be covered by the Agricultural Wages Order, but by general employment legislation. There are also particular complications for on-farm packing businesses which pack not only produce grown on the farm, but also brought-in produce. Under the definition of agriculture set out in the Agricultural Wages Act 1948 and mirrored in the Order, packing of on-farm produce is covered by the agricultural minimum wage regime, but packing of brought-in produce is not. Similar problems arise for on-farm dairies which process both on-farm produced milk and brought-in milk. There can also be problems in livestock production, where livestock and poultry rearing work would normally be considered agricultural work covered by the Agricultural Wages Order, but this is not necessarily the case for slaughtering operations, which may attract National Minimum Wage rates. In these sorts of circumstances an employer will need to consider whether or not employees are employed in agriculture and attract Agricultural Wages Order remuneration rates as opposed to National Minimum Wage rates.

Rationale for Intervention

The powers given to the Agricultural Wages Board under the Agricultural Wages Act 1948 mean that there is third party intervention in the agricultural labour market, which restricts the freedom of employers and workers to come to arrangements which suit their own particular circumstances. No other sector of the economy is

subject to the same intervention. Given that the Board is a statutory body set up by an Act of Parliament, Government intervention is necessary to amend the legislation. This is the removal of an intervention rather than the introduction of a new one.

The rationale for this change is that it is considered that there is no market failure in the functioning of the agricultural labour market which would require workers to receive additional protection. The majority of earners receive wages above the minima, the lowest paid income is underpinned by the National Minimum Wage and there is the additional protection of the normal employment legislation available to all workers.

In addition, the removal of the wage minima will remove a distortion in the labour market, allowing wage flexibility and bring demand and supply in balance to market clearing levels, and should therefore improve the competitiveness of the farming sector as well as the efficiency of the economy.

Policy Objective

The Government is committed to promoting a Growth Agenda to provide an environment for all sectors of the economy in which private enterprise and businesses can flourish. As part of this agenda, the Government wishes to simplify employment legislation, remove unnecessary red tape and administrative burdens.

A specific Defra objective is to support and develop British farming and encourage sustainable food production. The Government considers that the abolition of the Agricultural Wages Board would contribute both to the overall Government objective and to the specific Defra objective. The abolition of the Board would remove regulatory and administrative burdens from farm businesses and enable farmers to focus on their core business of farming, instead of dealing with administration. It would make it easier for farm businesses to employ workers and allow them to adopt modern, flexible working practices. This increased flexibility would help the sector meet the wider Government objective of improving UK farming competitiveness and increasing resilience in the whole food chain. There may also be increased employment which will have positive demand-side effects through greater expenditure in local rural economies.

Description of Options

1. Do nothing

This option would maintain the status quo. The Agricultural Wages Board in England and Wales would remain in place. There would be no changes to the agricultural wages legislation and the Board would continue to operate within the existing legislative framework. The Board would continue to hold annual wage negotiations and make an annual Agricultural Wages Order. Farm businesses would still be required to understand and comply with the annual Agricultural Wages Order. Businesses, such as pack houses which have workers who are covered by both the AMW and the NMW, would continue to have to operate dual regimes. Agricultural workers and employers would need to update themselves each year on any changes that may have been made in the Agricultural Wages Order, in addition to any changes in the National Minimum Wage. Agricultural workers would remain entitled to the terms and conditions of the current Agricultural Wages Order.

Defra would remain responsible for providing support to the Agricultural Wages Board and for investigating and enforcing complaints about underpayment of the agricultural minimum wage.

Compliance with the requirements of the terms and conditions of the Agricultural Wages Order would continue to be a requirement for the issue of a licence by the Gangmasters Licensing Authority.

2. Abolition of Agricultural Wages Board

Under this option the Agricultural Wages Board in England and Wales would be abolished, which would be a deregulatory measure. The National Minimum Wage legislation and Working Time Regulations would be amended to bring agricultural workers within scope. This would end the separate employment regime for agricultural workers in England and Wales and bring employment terms and conditions in the agricultural sector into line with those in all other sectors of the economy.

The terms of a worker's employment contract which existed at the time the AWB were abolished would continue to apply until such time as the contract were to be varied by agreement between the employer and the worker, or until the contract came to an end. In other words, workers with contractual rights would continue to be entitled to the terms and conditions of the final Agricultural Wages Order.

New workers coming into the agriculture industry would no longer be entitled to the terms and conditions of the Agricultural Wages Order, but would be entitled to the National Minimum Wage and the protection of wider employment legislation.

The Low Pay Commission would be required to gather evidence in the agricultural sector to take account of conditions for agricultural workers when providing recommendations to Government on the National Minimum Wage rates.

Responsibility for enforcement of the National Minimum Wage amongst agricultural workers would transfer to Her Majesty's Revenue and Customs (HMRC), which carries out this work on behalf of the Department for Business Innovation and Skills. However, Defra would continue to enforce claims for underpayment of the agricultural minimum wage and breaches of the other terms and conditions of the Agricultural Wages Order which occurred before the Agricultural Wage Board was abolished, for up to six years after abolition of the Board.

Costs and Benefits of Abolition of the Agricultural Wages Board

Table 2 sets out the potential costs and benefits of abolishing the AWB that are identified in greater detail in the 'Quantifying future impacts on wages and employment' section. The majority of costs and benefits in the table are transfers from workers to farmers and cancel each other out. The net benefit of £0.8m stems from the reduction in public administration costs of abolishing the AWB.

Table 2. Cost and benefits of abolition of the Agricultural Wages Board (Present Value (PV) over 10 years) in £millions¹

	Minimum	Maximum	Best Estimate
Costs	0.0	279.7	259.0
Reduction in sick pay to workers	0.0	8.8	4.4
Value of decreased annual leave to workers	0.0	100.1	83.8
Reduction in wages to workers	0.0	149.9	149.9
Reduction in Employment costs paid to government and others	0.0	21.0	21.0
Benefits	0.8	280.5	259.8
Reduction in sick pay paid by farmers	0.0	8.8	4.4
Value of labour to farmers of decreased annual leave	0.0	100.1	83.8
Reduction in wages paid by farmers	0.0	149.9	149.9
Reduction in employment costs to farmers	0.0	21.0	21.0
Reduction in public administrative costs**	0.8	0.8	0.8
Net Present Value (PV Benefits - PV Costs)	0.8	0.8	0.8

*These figures may not sum due to rounding.

¹ These figures have been updated to 2012 price levels in this Impact Assessment, whereas the consultation stage Impact Assessment was in previous years' prices.

**This benefit is the only impact that is not a transfer and is the reason for the £0.8m Net Present Value

General

The Agricultural Wages Order provides for a number of different allowances for agricultural workers, such as birth grant, entitlement to bereavement leave, dog allowance and on call allowance. There is no attempt here to value the impact of the removal of these allowances, as there is insufficient data on their take-up and their value is likely to be relatively small. It is possible that allowances related to the exercise of an employee's work would be likely to be retained to ensure they can work effectively. Therefore the Impact Assessment concentrates on the following areas: wage rates, including overtime, annual leave, sick pay and accommodation. The focus is on the impact of the possible change in terms and conditions and these can be costs if they affect workers or benefits if they result in transfer to farmers.

Change in number of workers from AWO to statutory terms and conditions

If the Agricultural Wages Board and agricultural minimum wage regime were abolished, the AWO terms and conditions would cease to apply for new workers entering employment in agriculture. However, at the time of abolition, all existing workers would still have a contractual right to the terms and conditions of the AWO in force at the time of abolition. Over time as new workers entered the industry, their terms and conditions would be determined by the general employment legislation applying to all workers in the UK and the prevailing labour market conditions. For the purposes of this Impact Assessment, it is necessary to be able to determine over the ten-year appraisal period, the numbers of workers subject to the AWO and those with new market based contracts.

The number of workers on new contracts will be determined by the turnover in the agricultural labour market. Almost by definition, all casual staff will leave the industry quite quickly, albeit possibly only temporarily, and new ones entering or casual workers returning will not be subject to the AWO. It can reasonably be assumed that within a year of abolition, effectively all of the 42,400 casual staff will no longer be subject to the AWO. For the remaining 94,100 permanent staff, in the absence of data on agricultural employment turnover, it is necessary to make some simple assumptions to provide the basis for a reasonable estimate. These staff numbers were recorded in Defra's June Survey and represent the number of workers in 2010.

For the purposes of estimation, it is assumed that the level of employment and the split between full-time and part-time workers remains the same over the coming ten years. The rate of turnover in the economy as a whole is about ten per cent. In agriculture, where the working population has a specific skill set, may have accommodation provided for themselves and their families and where their occupation may be a chosen way of life it might be thought that turnover will be considerably lower. Allowing for a forty year working life and assuming that the working population will continue to be reasonably stable over time, 2.5% of turnover might be due to retirement. Allowing another 2.5% for those leaving the industry, an

overall turnover of 5% might be considered to be reasonable. The assumed rate of turnover is based on an historic assessment. We are aware that due to the ageing population (55% of the agricultural population are aged over 45²) the churn rate could potentially be higher than we have stated, although over the 10 year appraisal period this is unlikely to be significant.

Taking these assumptions the number of workers subject to the AWO and those subject to new terms and conditions would be as they appear in Table 3.

² Commission for Employment and Skills (2011 survey)

Table 3. Change in numbers of agricultural workers subject to AWO and market based terms and conditions due to turnover.

Year	0	1	2	3	4	5	6	7	8	9	10
Salaried Manager											
AWB Contracts	11,051	10,498	9,974	9,475	9,001	8,551	8,124	7,717	7,331	6,965	6,617
New Contracts	-	553	1,077	1,576	2,050	2,500	2,927	3,334	3,720	4,086	4,434
Full Time											
AWB Contracts	50,631	48,099	45,694	43,410	41,239	39,177	37,218	35,358	33,590	31,910	30,315
New Contracts	-	2,532	4,937	7,221	9,392	11,454	13,413	15,273	17,041	18,721	20,316
Part Time											
AWB Contracts	32,434	30,812	29,272	27,808	26,418	25,097	23,842	22,650	21,517	20,442	19,419
New Contracts	-	1,622	3,162	4,626	6,016	7,337	8,592	9,784	10,917	11,992	13,015
Casual											
AWB Contracts	42,405	-	-	-	-	-	-	-	-	-	-
New Contracts	-	42,405	42,405	42,405	42,405	42,405	42,405	42,405	42,405	42,405	42,405

Impact on wages and employment

Research into the agricultural labour market and implications for future employment and wages

The extent to which removal of the AWB will materially impact on agricultural workers wages and benefits will depend on the extent to which AWB would impose conditions more favourable than would exist under market clearing conditions, i.e. no AWB. The extent to which this occurs will depend on the extent to which the AWB supports higher wages and employment conditions for the majority of agricultural workers. This is less likely in a market where demand is greater than supply and/or there are skills shortages.

This section sets out the results of modelling that looked at the impact of the AWB over the period 1999-2010 and assesses what the impact on wages, benefits and employment levels of removing the AWB could have been over that period

Defra has commissioned external research to investigate empirically the effect of the agricultural wage minima on employment and the level of wages in the past. An assessment of these effects was undertaken with a comprehensive collection of the available data and the use of modern econometric methods. The context for the study is fundamentally different from previous research into minimum wages as the policy is not to introduce or remove completely a set of minimum wages, but to remove a structured set of minima and then have a minimum set by a national minimum wage.³

The study used a range of comparisons with other sectors where wage councils have been abolished in the past to assess the potential impact of the abolition of the agricultural wage. The original report, referenced in the Impact Assessment at the consultation stage, compared the agricultural sector with the forestry and fisheries sectors in order to assess the effect of AWB minimum wages. However, this did not allow for the fact that forestry is itself covered by the terms of the Agricultural Wages Board. Since the consultation, the contractor has revised the analysis to correct for this. The revised impact on wages has been used in this impact assessment. .

The results published in the study were given in prices from the year 2010. We have converted these into 2012 prices in our analysis, therefore the estimated wage premium in the 'Main Findings of the Research' section will differ slightly from that in the 'Quantifying future impacts on employment and wages' section.

A copy of this research can be found on the link on the Defra website at www.defra.gov.uk . Alternatively, if you would like a hard copy to be sent to you, please call Dermot McInerney at Defra on 0207-238-6523 or e-mail him at awbconsultation@defra.gsi.gov.uk .

The Methodology and Data

³Assessing the impact of the abolition of the agricultural wages board: final report.' Peter Dolton, published 2012.

The approach taken by the research was to collect as much time-series and cross-section data as exist on agricultural wages and employment. This data collection exercise made sure that data from the different sources are comparable with common base years to adjust for inflation. The study then used the abolition of 11 wage councils in 1993, and the introduction of the National Minimum Wage in 1999 as natural experiments. Wages and employment levels in industries with wage councils were modelled over the period 1975-2010. This was compared to the wage and employment levels in agriculture over the same period. The comparison was used to estimate the difference in wages in the agricultural sector secured by the AWO and the impact on employment levels. The difference in wages and employment formed the basis of the estimated impact of abolishing the AWB.

It should be noted that the econometric methodology used is relatively new. A key assumption is that the control group and group of interest (fishery and agriculture respectively in this analysis) are affected equally by any changes in market conditions over time. There are also caveats around the data used, which consisted of annual data and median wages. In-year variations and the distribution around the median wage cannot therefore be accounted for.

Time Series Data

Previous studies by Dickens et al (1995) used data on the period 1950-1990 and Lund et al (1982) published econometric results based on data over the period 1960-80. Data post 1990 up to 2010 were collected from Defra, the IDS Data Bank and from various other papers on all the variables in the Dickens et al (1995) analysis. This data collection exercise made sure that data from the different sources are comparable with common base years to adjust for real prices and inflation. This data facilitated a rigorous econometric study of the effect of minimum wages on agriculture and the potential effect of the abolition of the AMW. The methodology followed in the research was to use exactly the same method and equation specification as Dickens et al (1995) to facilitate direct comparison with their findings.

Cross Section Data

The panel data used in this research made use of a fortunate 'natural experiment' to estimate the possible effect of abolishing the Minimum Wage (MW). This 'natural experiment' is that prior to their abolition in 1993, there were a number of Wage Councils in existence which were used to set a minimum wage (MW) in different industries. Then between 1993 and 1999 there was an 'interregnum' in which there was no MW. This state of affairs ended in 1999 when the Government introduced a National Minimum Wage (NMW). Hence data were examined using eleven Wage Councils (WCs) and their control industries with no minimum wage to assess the effect of abolishing the WCs and introducing a NMW. Using the Labour Force Survey (LFS) and the Annual Survey of Hours and Earnings (ASHE) (and its predecessor the New Earnings Survey (NES)) it was possible to compare agricultural wages and their distribution over time for the WCs and their controls. It is then possible using the

interregnum period of 1993-1999 where there were no Wage Councils to estimate what effects the abolition of the AWB might have on the distribution of wages in agriculture.

Main findings of the Research

The main findings of the cross section and time-series econometric research on this impact assessment of the adoption of the NMW in place of the AWB minima are:

i) Wages

The research found that wages in agriculture had been higher over the period 1999 to 2010. This may have been the result of having the AWB. The original research involved a direct comparison of agriculture with forestry and fisheries, and found that there had been a wage premium, and that the effect of moving agriculture to a regime of a NMW could theoretically cause a modest fall in the hourly wage of around 13-15p per year at the average hourly wage⁴. The revised research removed forestry workers from the comparator group, and estimated that fall in the hourly wage could be around 15p⁵ per year at the average hourly wage.

ii) Employment

From the time series evidence there would appear to be no robust, consistently positive or negative effect of MWs on employment over the whole period from 1975-2010. In the panel data the original results of the comparison of agriculture with forestry and fisheries suggested that as there was an employment impact in the past, the effect of moving agriculture to a regime of a NMW might cause a modest average, year-on-year increase in employment in agriculture of between 0.36% and 0.68% in the future. At the time of writing this Impact Assessment, there are not yet available the full set of revised results from the research. However, we expect that if wages were to fall around 15p per hour below counterfactual, then the average annual increase in employment could be at the upper end of this range. This effect is highly uncertain, and may therefore not be significantly different from zero.

iii) Wage inequality

In the original research, the aggregate time-series data showed that the AWB MW has ensured that wages at the bottom of the wage distribution (the 10th percentile) are higher than they would otherwise have been without the AMW. As a consequence it has reduced wage inequality within the agriculture sector.

Quantifying future impacts on employment and wages

⁴This estimate is derived from the cumulative 11-year effect, assuming an equal difference each year. This therefore introduces further uncertainty as if the full impact had occurred in one or two of the years then there may not in fact be a recurring annual effect.

⁵This is in 2010 prices. When converted into 2012 prices, this becomes 16p

This section assesses the potential impact of abolishing the AWB on future agricultural wages and employment.

All of the impacts relating to wages, annual leave and sick pay are presented in a range, with the lower ends at zero. The extreme ends of the ranges represent theoretical maximums but the eventual location in the range will be determined by how farmers use the flexibility that will be allowed by the removal of the AWO.

Wage levels

Going forward, the extent to which any wage premia that AWB provides would be materially eroded will depend on the relative strength of supply and demand. If demand is strong, relative to supply, as evidence suggests is likely to be the case⁶, then wages are unlikely to be eroded as farmers will need to attract workers.

The research findings suggest that the AWB minimum wages have added, on average, 16p⁷ to agricultural wages, above the 'no AWB' counterfactual. This does not mean that the same premium would necessarily apply in future. However if it did, and if the wage premium of 16p per hour was to erode in equal increments over a ten year period, the present value of reduced wages would be equal to almost £150m.

Based on the findings of the research, this represents the theoretical upper bound for wage erosion. There are several reasons to think that the actual impact will be smaller:

- Currently at least 58% of permanent workers are currently paid above the minima suggesting that the minima are not binding for a majority of workers and therefore a significant portion of the premium would remain.
- At the lowest agricultural worker grade, hourly wages are only 2 pence above the national minimum wage (and have historically changed at the same rate). Therefore, any erosion of wages can only have a very minor impact.
- Further it is useful to consider the underlying labour market conditions in the sector. The UK Commission for Employment and Skills 2011 survey suggests that there is a skill shortage (i.e. a shortage of workers with relevant skills) within the agricultural sector. It estimates that 25% of vacancies across the sector are due to skills shortage. This is high relative to the rest of the economy where the figure is 16%. The sector is also expected to have increased demand for skilled workers. The workforce is also ageing, with 55% of sector workforce aged over 45. This compares with just 38% for all sectors. Thus one would expect demand for both workers and skills in the sector to be increasing over the next 10 years and beyond, and by more so than the rest of the economy. This would suggest that the downward pressure on wages is likely to be mitigated.

⁶ UK Commission for Employment and Skills 'Agriculture, Forestry and Fishing: Sector Skills Assessment 2012.

⁷ This is in 2012 prices

The above suggests that the 16p per hour reduction in wage is unlikely to arise and is therefore the maximum impact. Depending on how labour market conditions evolve, the impact could be much less, or even zero (in the case that the AWB minima are not binding. Therefore the the lower bound estimate is zero. Any impact would be a transfer of resources between workers and famers rather than an overall cost to the economy

Due to the uncertainties around the impact, we adopt the results of the research (16p per hour wage reduction) as the best estimate (PV of £149.9m over the 10 year period), whilst acknowledging that this is at the top end of what might be expected. However, we stress that the reality will depend on human behaviour, which may be influenced by other factors, such as the need to be competitive with other employers in the area, the availability of labour, the skills required by a particular enterprise and the relationship between a farmer and his workers.

Non-wage costs

There are additional costs for farmers of being employers and paying wages. Over and above employee compensation there are employers' social security contributions, vocational training costs, other expenditure, such as recruitment costs and expenses on working clothes, and employment taxes, such as national insurance, regarded as labour costs, minus any subsidies received and there is a standard definition for these costs set out by the European Commission.⁸

Eurostat data suggests that for the UK economy as a whole these costs are 14.1% of wages costs, and it is assumed here, in the absence of other data that this figure will also apply to UK agriculture.⁹ Thus the non-wage costs associated with the wage costs discussed in the section above are **£0m to £21.0m**, although this is likely to be an overestimate as a small potential change in wages should not affect items such as training costs, recruitments costs and working clothes costs. This is a benefit to farmers as they are subject to reduced national insurance contributions, and a corresponding cost to government through reduced revenues. However, this impact could be offset by any increase in employment. In order to retain consistency with the wages assessment, the best estimate is taken from the research (PV of £21.0m).

Employment

The original research findings suggest that there are negative employment effects from having the minimum wages and that employment was 0.36 to 0.68% less than it would have been otherwise. Based on agricultural workers in 2010 subject to the wage minima this equated to 490-930 workers. As noted above, we do not yet have

⁸ The labour cost components and their elements are defined in Commission Regulation (EC) No 1737/2005 of 21 October 2005, modifying the Commission Regulation (EC) 1726/1999 of 21 July 1999, implementing Council Regulation (EC) No 530/1999 concerning structural statistics on earnings and labour costs as regards the definition and transmission of information on labour costs.

⁹ <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00114&plugin=1>

full revised results from the research, but we would not expect substantial changes from the original results regarding employment.

Change in value of sick pay from AWO to statutory entitlement

Currently, under the Agricultural Sick Pay (ASP) 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. Any Statutory Sick Pay received by the worker goes towards discharging ASP. Where the period of absence is less than fourteen days, the first three normal working days do not qualify for ASP. Due to the requirement to have worked at least a year, **casual staff will not qualify for ASP**. It is assumed salaried managers, as would be expected for a salaried post, do not receive statutory sick pay, but continue to receive their normal pay. If they do receive statutory sick pay, there is a corresponding reduction in their salary. Thus, salaried managers' income during sickness will not be affected by the abolition of the AWB.

New workers will not be entitled to ASP and could receive statutory sickness pay which is paid after the third day of illness at a rate of £85.85 per week. Thus, those workers who have periods of illness for longer than three days could receive a lower rate of sickness pay. The cost to government will not change as statutory sickness pay is already incorporated into ASP, but where farmers choose to pay for sickness at the statutory rate instead of the ASP level there is a saving to them. This is valued in the Impact Assessment as a transfer, a benefit to farmers and a cost to workers.

There are no data available on sickness absence by agricultural workers so some reasonable assumptions need to be made based on data for manual workers in the private sector as a whole. The CBI absence and workplace survey 2011¹⁰ provides useful data to enable this to be undertaken. Levels of absence in 2010 were found to be 6.4 days a year for manual workers in the private sector. The vast majority of episodes of sickness absence (9 out of 10 in the 2009 survey) were for short periods due to minor illness. It is assumed that these short episodes are three days or less which do not qualify for statutory sick pay, and this would still be the case in the absence of an AWO.

The relatively few instances of long-term absence account for a major proportion of working time lost: 27% of absence days in the private sector were due to long-term sickness. It is not known whether the reason for absence days in agriculture is significantly different to other manual trades. It might be reasonable to assume that they are not dissimilar given the physical nature of farming work and that the major reasons for illnesses causing long-term absence were non-work related stress, chronic back pain, other musculoskeletal disorders, and cancer and heart problems.

¹⁰[http://www.cbi.org.uk/ndbs/press.nsf/0363c1f07c6ca12a8025671c00381cc7/b5528e6c40f2d52b8025788b004d2406/\\$FILE/CBI-Pfizer%20Absence%20&%20Workplace%20Health%202011.pdf](http://www.cbi.org.uk/ndbs/press.nsf/0363c1f07c6ca12a8025671c00381cc7/b5528e6c40f2d52b8025788b004d2406/$FILE/CBI-Pfizer%20Absence%20&%20Workplace%20Health%202011.pdf)

It is assumed then that 27% of absence days in agriculture qualify for statutory sickness pay and that the distribution of sickness is the same across all grades. The difference between ASP under the AWO and the statutory minimum for sickness pay, if farmers chose to pay at this level, the reduction of the amount paid over ten years would have a PV of £7.9m.

As the AWO also requires that all guaranteed overtime is paid in the ASP but at basic rate, it is also necessary to value this. The 2010 Earnings and Hours survey suggests that 43% of non salaried managers and full-time workers work more than 39 hours a week and that those undertaking overtime, with a large variation across the workforce, average ten hours each. Assuming on average three hours a week of guaranteed overtime, if this were no longer paid during sickness it would be a transfer from farmers to workers over ten years, a PV of **£0.9m**.

The PV of the transfer from workers to employers is potentially between **£0m - £8.8m**. This includes the figure of £0.8m in respect of transfer in value of guaranteed overtime that would be paid in the ASP under the AWO. It may be the case that some farmers continue to pay workers their wage for normal hours work while sick and others pay the statutory minimum. Given that it is not possible to predict the outcome, a reasonable approach would be to assume that 50% of farmers choose to continue providing workers with their usual wage during periods of sickness, while the remaining 50% reduce sick pay to the statutory minimum. Our best estimate for the impact on sickness pay is a transfer of £4.4m from workers to farmers over the 10 year period.

Change in value of annual leave from AWO to statutory entitlement.

The AWO 2012 calculates entitlement to annual leave on the basis of Table 4. The entitlement includes public holidays.

Table 4. Entitlement to leave under the Agricultural Wages Order 2012

Annual leave for workers who work for the whole annual leave year for the same employer							
Days worked each week	More than 6	More than 5 but not more than 6	More than 4 but not more than 5	More than 3 but not 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	38	35	31	25	20	13	7.5

These entitlements apply to all workers **including casual workers** who accumulate annual leave on a pro rata basis. If the AWO was abolished, new workers would not be entitled to these leave days but their entitlement could be based on the statutory minimum, which is twenty eight days annual leave including public holidays. For part-time workers, the statutory minimum is pro rata across the twenty eight days. It is necessary to try and quantify the potential loss of annual leave to new entrants if

farmers chose to implement statutory terms for annual leave instead of the current ones, and also to value this change in entitlement, both for farmers and workers.

A comparison between the statutory entitlement and the AWO entitlement is as set out in Table 5 below.

Table 5. Difference in annual leave between the AWO and statutory entitlement

Days worked	7	6	5	4	3	2	1
AWO	38	35	31	25	20	13	7.5
Statutory minimum	28	28	28	22.4	16.8	11.2	5.6
Difference	-10	-7	-3	-2.6	-3.2	-1.8	-1.9

Assumptions and Estimation of leave entitlement

As there are no data available on the number of days worked by each employee nor their leave entitlement it is necessary to make estimates using some reasonable assumptions about numbers of days worked. As a starting point, the 2010 Earnings and Hours survey completed by Defra contains information on the hours worked per week by salaried managers, full time, part time and casual workers based on a sample of farms.

Full-time workers and managers (including salaried workers)

According to the agricultural wages order, a full-time flexible worker would work 39 basic hours a week, but this could be an average over several weeks, or worked over 4, 5 or 6 days. To enable some estimates to be made of the current leave entitlement it is necessary to make some simplifying assumptions about numbers of days worked:

- Full-time workers who work 44 hours or less are working 5 days a week. This assumes that the first 5 hours of overtime are worked during the working week. Based on Table 5, there is a three day annual difference in annual leave entitlement between the statutory and AWO regime.
- Full-time workers, casuals and managers who work more than 44 hours a week are working six days per week, that is, they are working the first five hours of over-time during the working week, and the remainder on one day on the weekend. Based on Table 5 there is a seven day annual difference in annual leave entitlement between the statutory and AWO regime.
- The number of workers working more than 6 days a week is likely to be too small to affect these estimates.

Part-time workers

There are data from the earnings and hours survey on the number of hours worked by part-time workers, but it is not known whether these are worked every day or are undertaken over fewer days. Given the pattern of working on most farms where there may be a number of activities that need to take place every day but may not constitute a full day's work, it is assumed for simplicity that part-timers work between three and five days a week; hence based on Table 5 there is a three day annual difference in annual leave entitlement between the statutory and AWO regime. On average a part-time employee works twenty hours per week and the AWO determines that leave is valued pro rata on a daily basis.

Casual workers

Casual workers are quite significant in this calculation as unlike the entitlement to ASP which they were unlikely to receive due to the time it took to qualify, they immediately benefit from the AWO leave entitlement. Those employed for only part of the leave year are entitled to accrue annual leave at the rate of 1/52nd of the amounts in Table 4 for each completed week of service with the same employer. In the absence of the AWO fast turnover means that there is the potential for the body of casual workers to be placed on general statutory employment terms quite quickly. Due to this fact it is assumed that all of the population of casual workers have the possibility of general statutory employment entitlement to annual leave by the end of the first year. To value this possible change in entitlement it is assumed that all casual workers are either grade 1 or 2 and that the split between the grades is the same as the full-time working population, that is 36% of casuals receive the grade 1 rate of pay and 64% the grade 2.

Valuation of annual leave

The value to farmers of a reduction in workers annual leave is quite straightforward as they receive more labour than they would have done otherwise and by definition the wage of workers is their value to farmers. Thus a reduction for new entrant workers of up to three days annual leave can be valued at their daily wage rate when valuing the benefits to farmers.

However, valuing the loss to new entrant farm workers of a day's paid annual leave compared to a day's work is much more complex. Individuals are assumed to gain utility from leisure, time is a limited resource and a choice has to be made about how much time should be devoted to leisure activities and work. The individual will then have a preferred marginal rate of substitution between labour (which pays income) and leisure. If they have to accept a lower level of leisure than they find optimal there will be a loss of utility. Valuing this loss of utility requires calculating the marginal value of leisure for a farm worker, but this is problematic as we do not know their preferences and no attempt is made to calculate it here. The marginal value of leisure for a worker might be low as they work long overtime, on the other hand this may be implicit in the type of job they do and in reality their utility would be maximised by working shorter hours.

Thus, in the calculations of costs below, the valuation of potential loss of annual leave to workers will be made at their wage rate, and it can only be noted there may be an additional cost which cannot be quantified.

Annual leave results

If all new workers are placed on general statutory employment terms in preference to the existing AWO terms over the next ten years then the value of the loss of annual leave entitlement to those workers is potentially between **£0m - £100.1m**.

We do not know the extent to which farmers will offer new workers less favourable employment terms than under AWO. Farmers may find it necessary to offer similar terms to new workers to those currently offered to attract workers of a particular quality. Thus, this transfer could be as low as £0 or as high as £100m. Any transfer that might occur would be a loss for workers due to the fact that they would receive less leisure time and a benefit for farmers who would receive more labour for a given wage.

Given that it is not possible to predict the outcome, a reasonable approach would be to assume that:

1. All new casual workers would be offered the statutory minimum annual leave entitlement.
2. 50% of permanent workers would still be offered the same annual leave, with the remaining 50% receiving the statutory minimum.

The best estimate is calculated on this basis. Our best estimate for the impact on annual leave would be a transfer of £83.8m from workers to farmers over the 10 year period.

In practice, the way in which this will impact on a particular farm or farm worker would vary by farm. In cases where the farmer hires in additional cover for a farm worker on leave so that the actual time working remains the same this loss to the farm worker will be offset by a similar financial saving to the farmer. If the contracted hours of the farm worker remains the same, and there is no cover hired in by the farmer, then the additional labour could be used to generate additional output for the farm. However, the production of the farm will typically be limited by other factors of production (such as land). An individual farm is likely to have a small change in the availability of hired labour which could be balanced by an equivalent small reduction in the time that the farmer him/herself works on the farm. This in turn could represent an increase in farmers' own leisure time. It is not possible to estimate how the benefits to the farmer might apportion between these different possibilities, but in total the benefits to the farmer (in financial terms or through an increase in own leisure time) will broadly match the costs to the farm worker. The above assumes that the worker will continue to increase their hours until the wage that they earn exactly compensates for the exertion of working, and the wage is also equal to the satisfaction that the worker gains from leisure time. By the same token, the above assumes that the farmer will continue to hire workers until the wages (and additional

costs) that he or she pays them is equal to the extra income they gain from hiring them.

Table 6. Change in NPV value of labour over ten years of annual leave entitlement if employers chose to implement statutory instead of AWO terms in new contracts

Days worked	NPV £m	
	5	6
Salaried Managers	5.4	4.7
Full –time workers	11.8	10.1
Part-time workers	5.3	0.0
Casual Workers	45.1	17.7
Total NPV	100.1	

Impact on provision of accommodation

Under the terms of the Agricultural Wages Order where a worker’s contract requires the worker to live in a house provided by the employer, the employer may deduct not more than £1.50 per week.

Where a worker’s contract requires the worker to live in accommodation (other than a house) the employer may deduct not more than £4.82 per day, provided that the worker has worked for a minimum of 15 hours for their employer.

If the accommodation is provided to a worker, but it is not a condition of their contract that they are required to live there, then the National Minimum Wage accommodation offset provisions apply. These require that a worker must be paid at least the correct National Minimum Wage rate for the number of hours worked minus £4.82 for each day that accommodation has been provided.

Casual workers such as those in the Seasonal Agricultural Workers Scheme, who are more likely to live in “other accommodation”, are generally not required to live in the accommodation as a requirement of their contract. Therefore they do not fall under the provisions of the AWO, but come within the NMW offset rules. In this respect there will be no change for these workers when the AWB is abolished.

Information from the Defra Earnings and Hours Survey indicates that on average over the period 2007 to 2010 around 20% of workers sampled had a house or cottage provided by the farmer. The higher the AWB grade the more likely it is that a worker has a cottage. Around 3% of workers received some other form of accommodation, such as a caravan.

Table 7. Workers with cottages or other accommodation (2007 to 2010 average)

Grade	Proportion of agricultural workers	
	With cottages	With other accommodation
1	6%	10%
2	10%	3%
3	18%	2%
4	29%	1%
5	35%	0%
6	46%	0%
All	20%	3%
Source: Defra Survey of Earnings and Hours of Agricultural and Horticultural Workers (2007-2010)		
Notes: Based on survey responses only. Depending on sample sizes, there were between 100 and 300 survey respondents with cottages. The figures have not been weighted to account for variations across the quarterly surveys. The figures were also calculated on the basis of workers aged 22 and above only. The figures are very similar to those supplied for all workers.		

On the basis of 2010 figures, there were approximately 25,600 workers who were provided with a cottage and 4,700 workers who were provided with other accommodation. Therefore in 2010 a total of 30,300 workers had some type of accommodation provided for them.

We do not have any current information on the distribution of holdings throughout England and Wales providing accommodation for workers. However, the CEAS “Review of the Minimum Wage Arrangements in Agriculture: England and Wales” carried out in 2000 suggested that about 30% of holdings in the East and South East of England provided accommodation compared with only 3% in Wales.

Moreover, there are no current data on the proportion of workers who are required to live in their accommodation as part of their contract, and thereby fall within the accommodation provisions of the Agricultural Wages Order. This was evident during AWB discussions in 2008 when changes to the AWO accommodation offset arrangements were introduced, as neither NFU or UNITE could provide any concrete figures as to how many workers might benefit from the changes.

However, it would seem reasonable to assume that the 4,700 workers who in 2010 were provided with other accommodation were not contractually required to live in the accommodation provided and so fall outside the exercise.

This leaves the 25,600 workers who were provided with a house or cottage.

In the absence of more up to date information, the 2000 CEAS research carried out a telephone survey on tied housing, which suggests that at that time 55% of workers said they were required to live in their house as condition of employment. Given that it is unlikely that the stock of tied housing has increased, it is probably reasonable to assume that today the percentage of workers required to live in tied accommodation is not any more than 55%. On this basis, it would mean that in 2010, as a maximum, approximately 14,000 workers were required by their contract to live in a house provided by their employer, and could potentially be affected by the change from AWO to NMW provisions.

However workers with contractual rights at the time of abolition of the Board would be entitled to retain those rights, including those in respect of the provision of accommodation. It would be reasonable to assume that the majority of workers who are provided with a house by their employer are likely to have contractual rights. Therefore, even if the Board were abolished, unless a worker left his current job or mutually agreed a re-negotiation of contract, an employer would not be able to deduct more than the weekly amount permitted for a house as set out in the last Agricultural Wages Order. If a worker left their current job or entered into a new contract, they would need to renegotiate the arrangements for accommodation with their employer.

Under the National Minimum Wage legislation, where accommodation is provided an employer has to pay a worker at least the hourly national minimum wage rate (£6.19) multiplied by the number of hours worked, and may deduct only £4.82 per day for provision of accommodation. Therefore on the basis of a 40 hour week and the provision of accommodation for 7 days, a worker would have to be paid at least £213.86 (i.e. £247.60 - £33.74) per week. However, if the Board were abolished, it seems unlikely that an agricultural worker who is currently provided with a house or cottage by their employer would be paid at this minimum level. There are several factors which suggest this:

- Workers are unlikely to leave their job or renegotiate a contract unless the terms are equally or more favourable than their current position.
- The Earnings and Hours Survey shows that the majority of workers who are provided with accommodation are those in Grades 5 and 6 i.e. the higher skilled workers who are likely to be in demand and in a position to negotiate favourable terms.
- The provision in the Agricultural Wages Order (AWO) of the £1.50 maximum deduction in respect of a house is an historic token amount. Anecdotal evidence suggests that provision of accommodation is reflected in actual pay and the overall package given to a worker. There is therefore no reason to suggest that this would not remain the case after the abolition of the Board.
- The provisions of the AWO allow employers to seek a revaluation of the benefit in kind attributable to provision of a house, with the possibility that an employer could deduct an amount greater than £1.50 per week but less than the National Minimum Wage accommodation offset, (currently £4.82 per day) multiplied by the number of days in the week for which the house was provided. In effect, under the AWO 2012, an employer could ask for a revaluation which might entitle him to deduct a maximum £1759.30 for the provision of a house for a year (£4.82 x 365), rather than the amount provided

for in the AWO of £ 78 (£1.50 x 52). However, there have been no requests for revaluation by employers for the last 10 years, which again suggests that in reality the £1.50 maximum deduction provision is a token amount and is not reflected in actual arrangements between workers and employers.

Removal of administrative burden for farm businesses

There are approximately 38,500 agricultural employers in England and Wales. Currently, agricultural employers need to be aware of the provisions of both the Agricultural Wages Order and the National Minimum Wage legislation, in order to ensure that workers are remunerated under the correct regime. However, if the AWB were abolished, they would need to familiarise themselves only with the provisions of the NMW regime.

We do not have any evidence as to how long farmers might spend each year familiarising themselves with the provisions of the Agricultural Wages Order (AWO) and it is difficult to estimate as it will differ from farmer to farmer. Based on data in the Office for National Statistics' Annual Survey of Hours and Earnings, Defra assumes a cost to farmers of £14.09 per hour for responding to Defra surveys and it seems reasonable to use this same figure as the cost to farmers of consulting and reading the AWO. On this basis, if each agricultural employer spent an hour each year familiarising themselves with the provisions of the AWO there would be a yearly cost to the industry of £542,465, which would be saved if the AWB were abolished. Please note that this cost saving is illustrative and not included in the cost-benefit analysis of this impact assessment.

There should also be a time saving for farmers who currently operate both the agricultural minimum wage and the national minimum wage regimes. However, we do not have any evidence or data on how much time saving that might be, and it will depend on the number of employees and the nature of the farming business.

Micro Businesses

This is a deregulatory measure, which will remove administrative burden. Therefore no exemption is necessary for micro businesses.

Impact on public expenditure

The Agricultural Wages Board currently costs £179,000 to run, excluding the cost of the Secretariat. If the Board were abolished and agricultural workers bought within the National Minimum Wage, the above cost would no longer be incurred but, there would be an increase in workload for the Low Pay Commission (LPC) and HMRC to take account of the extension of the NMW to the agricultural sector.

The LPC estimates that in the first year of abolition of the AWB, it would incur additional costs of £50,000, which would cover specific research into the circumstances for agricultural workers and £10,000 for the cost of gathering evidence within the agricultural sector. Thereafter, the LPC estimate that the cost would be £10,000 per year, unless any further research is required. HMRC has

provisionally estimated that the additional workload for enforcement of the NMW in agriculture would lead to increased costs of around £1740,000 in the first year and £157,000 in following years.

There would be a saving to Defra in no longer having to provide secretariat support to the Agricultural Wages Board plus the staff costs associated with preparing the Report on Farm Labour and Wage Statistics and attending the annual wage negotiations of the Agricultural Wages Board. But as this staff time will then be re-deployed to other activities there is no net change.

Table 8: Change in Public Administration Costs if the AWB is Abolished (£s)

Year	1	2	3	4	5	6	7	8	9	10
Status Quo - Administrative Cost if AWB Continues										
AWB - direct costs (excluding secretariat)	179,000	179,000	179,000	179,000	179,000	179,000	179,000	179,000	179,000	179,000
Enforcement of AWB minima	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Total	329,000	329,000	329,000	329,000	329,000	329,000	329,000	329,000	329,000	329,000
Option 2: Abolition of AWB										
LPC - One-off	50,000									
LPC - Ongoing	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
HMRC enforcement of NMW	170,000	157,000	157,000	157,000	157,000	157,000	157,000	157,000	157,000	157,000
Enforcement of AWB minima	150,000	125,000	100,000	75,000	50,000	25,000				
Total	380,000	292,000	267,000	242,000	217,000	192,000	167,000	167,000	167,000	167,000
Difference	-51,000	37,000	62,000	87,000	112,000	137,000	162,000	162,000	162,000	162,000

Enforcement of the Agricultural Minimum Wage

Defra would continue to enforce claims for underpayment of the agricultural minimum wage and breaches of the other terms and conditions of the Agricultural Wages Order which occurred before the Agricultural Wage Board was abolished, for up to six years after abolition of the Board.

Defra currently spends approximately £150,000 per year on enforcement of the agricultural minimum wage (AMW). We assume that the cost of enforcing the AWB would fall each year following the abolition as the number of workers under the order would fall. Over ten years including the six year period post abolition, there would be a saving for Defra of around £525,000 in no longer having to enforce the agricultural minimum wage.

The difference in the public expenditure and enforcement cost of having an AWB compared to abolition, over ten years of will be a present value of **£0.8m**. See Annex C for a summary of the cost differences between the Status Quo and abolition of the AWB.

Wage negotiations

In the absence of an annual Agricultural Wages Order employers and workers would need to agree terms and conditions on an individual basis. This could be taken to represent a new burden for farming businesses. However, the Agricultural Wages Order sets only minimum terms and conditions and the evidence shows that of permanent workers aged over 21, at least half were paid 10 pence or more per hour above the hourly minimum wage for their grade in 2009 and 2010. In particular over 50% of all Grade 2 workers and over 55 % of all Grade 1 workers were paid a premium of 10 pence or more above the agricultural minimum rates in these years. This indicates that farmers and workers are already negotiating their own agreement over and above the minimum terms and conditions set out in the Agricultural Wages Order. Moreover, the abolition of the agricultural minimum wage regime would give farmers and workers greater freedom to determine arrangements for pay and reward depending on business and personal circumstances. For example, it would make it easier for employers to offer annual salaries, which would be attractive for workers as it would give them better control over their financial affairs. The ending of an annual AWO might reduce the frequency of reviewing terms and conditions.

Risks and Assumptions

There are a number of areas of risk and uncertainty in the assumptions for the values that underpin the costs and benefits calculations. The costs and benefits in this IA are largely transfers between groups and the extent of these cannot be determined with any great precision as they largely depend upon behavioural responses. It is considered that providing a range between zero and 'x' is sufficient and that further analysis (sensitivity analysis, switching values etc.) would not provide any further insight. For changes in incomes there is the additional uncertainty created by making assumptions about what might happen in the future on the basis of past evidence. The assumptions relating to the calculation of changes in the level of wages, annual leave and sick pay alongside the sources of uncertainty are listed below.

Table 9. Assumptions and risks.

	Value	Source of risk or uncertainty to value.
Number of workers subject to AWO in 2010	Salaried Managers – 11,051 Permanent full-time - 50,631 Permanent part-time – 32,434 Casual – 42,405 Total – 136, 521	Point in time estimate for the June Survey which was run as a census in 2010.
AWO wages rates	2012 AWO rates	2012 rates used with 2010 data on numbers of workers
Turnover rate	5%	Could be higher or lower, the turnover rate in wider economy is 10%
Casual workers turnover rate	100%	Not likely to be casual workers employed for more than a year
EMPLOYMENT AND WAGES		
	A historic wage premium of 16p ¹ p an hour due to AWO	Source: Peter Dolton research. The value is an indication of what happened in the past. It is not known with certainty what will happen in the future. This premium could be retained after AWO minima are abolished.
Time period for erosion of wage premium	10 years	No basis to deduce a profile, chosen on the basis of the length of the appraisal period
Proportion of non-wage costs for farmers	14.1%	Rate for UK agriculture is assumed to be the same as all UK employment. Source: Eurostat
SICK PAY		
Number of sick days	6.4	The same as a private sector manual worker according to the CBI absence and workplace

¹ In 2012 prices

		survey 2011. Could be higher or lower but not significantly.
Days of absence due to long-term illness	27%	As above
Length of long-term illness	More than 3 days to qualify for ASP	
Hours of guaranteed overtime per week	3	This is paid under ASP but there is only anecdotal data on hours worked. Is relatively small compared to level of overall payment.
ANNUAL LEAVE	Numbers of days worked across different categories of workers is important because it determines leave entitlement	
Full time workers, 39 hours per week, number of days working	5 days worked	Could be spread over more days but no data
Full time workers, casuals, managers working more than 44 hours per weeks	6 days worked	Could be spread over 5 days, but no data
Part-time workers number of days worked	5 days worked	Could be spread over different numbers of days but no data
Casual workers transfer to statutory as a group	100% on statutory terms by end of first year due to 100% turnover assumption	
Casual workers grade	Casual workers are either grade 1 – 36% or 2 – 64%	Same proportions as full-time permanent workers as no data
BEST ESTIMATES		
Sick Pay	Over the appraisal period, 50% of part time and full time workers under new contracts receive statutory sick pay whereas the remaining 50% receive the AWO conditions.	No data.
Annual Leave	Over the appraisal period, 50% of part time and full time workers under new contracts receive statutory leave whereas the remaining 50% receive the AWO conditions. All casual	No data

	workers receive statutory leave	
Wages	16p erosion of hourly wage for all agricultural workers over 10 years.	Source: Peter Dolton research. The value is an indication of what happened in the past. It is not known with certainty what will happen in the future. This premium could be retained after AWO minima are abolished.

Wider Impacts

In the event of the abolition of the AWB, there could be a wider supply-side benefit because the agricultural labour market would become more flexible and employment could increase. There could then be multiplier effects, a ripple effect, from employee expenditure in the local economy. In addition, assuming there were increased output payments to suppliers, this would also contribute to this impact. However determining the correct multiplier to use in this case is problematic and for there to be an impact there would have to be genuine additionality, with surplus labour to ensure there were no displacement or substitution effects. This potential wider benefit is noted but given the uncertainty about the change in the level of employment, a lack of data on appropriate multipliers and the degree of additionality, no attempt is made to quantify the impact.

Summary and Preferred Option

The preferred option of Government is the abolition of the Agricultural Wages Board.

Annex A

Employment in Agriculture in England and Wales²

The total number of people working in agriculture as at June 2010 was just under 351,000 (293,200 in England and 57,800 in Wales). This includes farmers, their partners, directors and spouses (FPDS), who are outside the scope of the Agricultural Wages Order (AWO), as well as employed workers, who are covered by the provisions of the Order. Of the total labour force for England and Wales at June 2010, around 39% of people (136,500) were employed workers who are within scope of the Agricultural Wages Order (122,700 in England and 13,800 in Wales). This means that 61% of the total agricultural labour force in England and Wales (170,500 people in England and 44,000 people in Wales) fell into the category of FPDS, hence outside the remit of the AWO. There is a significant difference in the individual figures for England and Wales. In England employed workers represented about 42% of the total English labour force in 2010, compared with 58% of FPDS, but in Wales employed workers represented only 24% of the Welsh total labour force compared with 77% of FPDS.

Of the total work force for England and Wales 72 % were male workers and 28 % female workers. Permanent full time and part-time workers (both male and female) represent 69% of the work force, meaning that 31% of the workforce is non-permanent workers.

Table 1. Break down of male and female full and part time permanent and non-permanent workers in 2010

	England	Wales	Total
Permanent full time	55,200	3,500	58,700
Full-time male	45,500	2,500	48,100
Full-time female	9,700	900	10,600
Permanent part-time	30,300	4,900	35,100
Part-time male	17,700	3,400	21,100
Part-time female	12,500	1,500	14,000
Non-permanent	37,200	5,200	42,400
Non-permanent - male	24,300	4,500	28,700
Non-permanent – female	13,000	700	13,700

Notes

- Sub-totals may not sum due to rounding.
- For England, in 2010 the gender split for full time and part time workers was only collected on electronic survey forms. The gender split in 2010 was therefore assumed to have been the same as in 2009. The 2009 data has been used to generate proportions which have been applied to the full dataset. The gender split for salaried workers was not recorded, and so was assumed to be the same as for full time workers.

Since 2005, the total labour force has declined by 4% from 376,000 to 361,000 and the total number of employed workers has fallen by 5% from 150,000 to 142,000.

² Some of the figures have subsequently been revised after the completion of the impact assessment. Most are based on June Survey data from the year 2010. In some cases we have retained June 2010 data although 2011 data is available because 2010 was a census and so the data collected is more detailed than subsequent years,

Today only around 34% of farm businesses employ staff and of these only 1% employs more than 10 staff.

Graph 1. Decline in Agricultural Workers in England 1999-2011

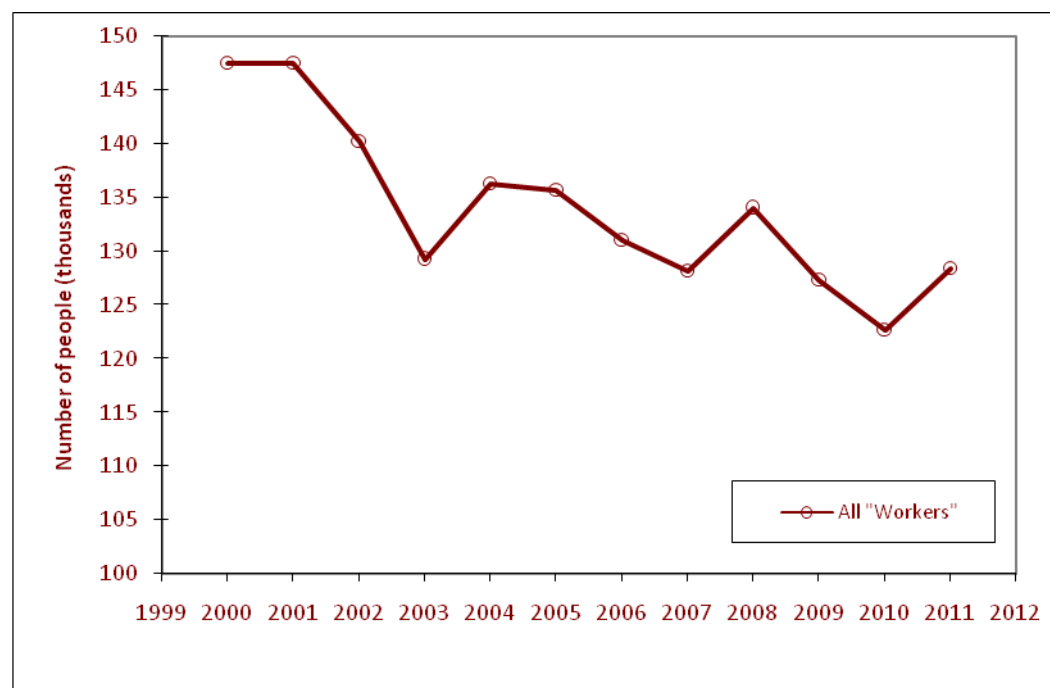


Table 2. Percentage of holdings employing agricultural workers

	Holdings with workers (excluding farmers, partners, directors and spouses)	Holdings with permanent workers (regular or salaried managers)	Holdings with regular workers (Part time and Full time)	Holdings with casual workers
	% of holdings			
0 people	66%	71%	74%	91%
1 person	16%	14%	13%	5.3%
2 -4 people	14%	12%	11%	2.8%
5 -9 people	3.0%	2.4%	1.9%	0.5%
10 or more people	1.4%	0.9%	0.8%	0.4%

The majority of all workers fall into the Grade 1 (24%) and Grade 2 (43%) categories.

Table 3. Number of workers at the different AWB grades in England and Wales

	2007	2008	2009	2010
Grade 1	24,000	25,000	28,500	32,800
Grade 2	81,500	80,700	65,900	59,300
Grade 3	7,700	9,600	9,700	8,700
Grade 4	18,900	23,800	22,400	23,200

Grade 5	7,100	6,800	9,800	8,300
Grade 6	3,000	1,900	3,900	4,100

However, employment levels vary throughout England and Wales vary depending on the types of farming carried out. In England the highest concentrations of workers are to be found in the Eastern, South East and South West regions of the country, where there is greater emphasis on cereals, general cropping and horticulture, including flower and bulb production. Livestock production in these areas also tends to be of a more labour intensive type, for example intensive poultry production in the Eastern region and dairying in the South West. The lowest concentration of workers in England is to be found in the North East, North West and Yorkshire and Humberside regions of the country, where a high proportion of the farming land is rough grazing, hence there is greater reliance on livestock production, particularly sheep, but also dairy production in the North West.

Tables 4 and 5 set out the latest available figures of workers in England by region and by farm type.

Table 4. Number of agricultural workers in England in 2010 by region

	Permanent workers	Non-Permanent workers	Total
North East	2,200	500	2,700
North West	7,200	2,372	9,538
Yorkshire and Humberside	8,000	2,200	10,200
East Midlands	8,800	4,200	13,000
West Midlands	8,500	7,600	16,100
Eastern	12,500	6,300	18,900
South East (including London)	14,000	9,600	23,600
South West	13,700	4,400	18,100

Table 5. Number of permanent workers in England in 2010 by farm type (excluding salaried managers)

	Permanent	Non permanent	Total
Cereals	10,600	2,700	13,300
General cropping	12,000	11,900	23,900
Horticulture	14,500	12,900	27,400
Specialist Pigs	2,100	200	2,300
Specialist Poultry	4,600	800	5,500
Dairy	9,300	1,400	10,800
LFA – Grazing livestock	3,500	1,500	5,000
Lowland – Grazing livestock	10,900	3,300	14,200
Mixed	7,100	2,500	9,600
Unclassified	100	0	100

In Wales, nearly 80% of land is devoted to agriculture, but less than 4% of the farmed area is used for growing of crops. Sheep farming is far the most dominant type of livestock farming in Wales, although there is some dairy, beef and poultry rearing. The most important crops grown are barley, wheat and maize. Within Wales, Powys is the largest agricultural region, which accounts for 23% of the agricultural land of Wales, followed by north-west Wales. The vast majority of workers in Wales are employed in livestock grazing, followed by dairy production.

Tables 6 and 7 below sets out the latest available figures for distribution of workers in Wales according to region and farm type:

Table 6. Workers on Agricultural Holdings in Wales according to region – June 2011

Agricultural Region	Permanent workers	Non-permanent workers	Total
Carmarthenshire	600	800	1,500
Ceredigion	500	600	1,100
North East Wales	1,000	1,200	2,200
North West Wales	800	900	1,700
Pembrokeshire	700	800	1,500
Powys	1,400	1,700	3,100
South Wales	1,000	1,000	2,000
WALES	6,000	7,100	13,100

Table 7. Workers on Agricultural Holdings in Wales according to farm type – June 2011

Farm Type	Permanent workers	Non-permanent workers	Total
Cereals & general cropping	200	300	500
Horticulture	300	200	500
Pigs & poultry	300	100	400
Dairy	1,300	1,000	2,300
LFA - grazing livestock	2,800	3,800	6,700
Lowland - grazing livestock	400	600	1,000
Mixed	300	300	600
Other types	400	600	1,000
WALES	6,000	7,100	13,100

Table 8 shows the relative proportions of workers in England and Wales operating under full time, permanent and casual contracts respectively in 2011. The vast majority of workers operate under permanent contracts.

Table 8. Permanent and casual workers and hours work per annum ***

Grade	Number of Agricultural workers		Total hours worked per year	
	Perm	Casual	Perm	Casual
1	22578	15084	36513834	20653039
2	40893	27321	63368416	37036817
3	6061		11062666	
4	16037		31523047	
5	5732		10431629	
6	2814		5297202	
Total	94116	42405		215,886,651

***The figures in the table are estimates based on 2010 June Survey data, summed for England and Wales

Skill Levels in Agriculture

Lantra is the Sector Skills Council for the Land Base Sector. According to the Lantra Model for Employment Forecasting 2010 it is estimated that in the next ten years the UK agricultural industry as whole will need a minimum of 52,000 more people to satisfy replacement and expansionary demand. This figures includes professionals such as vets, lawyers, agronomists, sales and marketing staff, administrators and secretaries, who are not covered by the Agricultural Wage Order as well as farm managers, tractor drivers, stockman and farm workers who are covered. The greatest need for people is expected to be in marketing and sales roles (11,000), occupations, such as basic stockman and farm worker (9,000) and farm and unit managers (8,000).

The numbers of people required according to skill levels can be broken down as follows:

3,000 at postgraduate level
10,000 at graduate level
11,000 at 'A' level
12,000 at GCSE A –C
10,000 at GCSE D-G
6,000 without any qualifications.

Therefore, even amongst the occupations which are covered by the AWO, this suggests that there will be a higher demand for people with skills and qualifications than the demand for unskilled workers.

According to Lantra, the National Employer Skills Survey indicates that 8% of employers within the agricultural industry had a vacancy at the time they were surveyed compared to 7% of employers in the total land-based and environmental sector in England. The most common reason for hard-to-fill vacancies was due to skills shortages, with the skills that were most commonly lacking being job-specific skills, problem solving and team working.

Many of the factors impacting on the agricultural industry today, such as technological change, animal health and welfare standards, climate change, food safety and security will require a

higher level of skills within the workforce and continued skill development in order to meet these challenges and ensure the competitiveness of the agricultural industry. There is evidence that the proportion of basic skilled workers in England in the land-based and environmental sectors has dropped by 6% between 2000 to 2010, demonstrating the shift towards the need for a more highly qualified workforce.

Annex B

Summary of agricultural minimum wage rates applicable as from 1st October 2012 Pounds. All rates rounded to the nearest penny

Grade		Rate Per Week	Rate Per Hour	Overtime Rate Per Hour
Grade 1	Compulsory School Age		3.11	4.67
	Above Compulsory School Age	242.19	6.21	9.32
Grade 2	Standard Worker	271.44	6.96	10.44
Grade 3	Lead Worker	298.74	7.66	11.49
Grade 4	Craft Grade	320.19	8.21	12.32
Grade 5	Supervisory Grade	339.30	8.70	13.05
Grade 6	Farm Management Grade	366.60	9.40	14.10
Apprentices Year 1		139.23	3.57	5.36
Apprentices Year 2:				
	Age 16-17	143.52	3.68	5.52
	Age 18-20	194.22	4.98	7.47
	Age 21	241.41	6.19	9.29

Night Work Rates (£ per hour)
1.36

Dog Rate (Per Dog/Week)	7.63
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FLEXIBLE WORKERS				
	Number of Days Basic Hours Worked	Rate Per Week(39 Hours)	Rate Per Hour	Overtime Rate Per Hour
Grade 1 Initial Grade	4 to 5	254.28	6.52	9.32
	6	258.96	6.64	9.32
Grade 2 Standard Worker	4 to 5	285.09	7.31	10.44
	6	290.55	7.45	10.44
Grade 3 Lead Worker	4 to 5	313.56	8.04	11.49
	6	319.80	8.20	11.49
Grade 4 Craft Grade	4 to 5	336.18	8.62	12.32
	6	342.42	8.78	12.32
	4 to 5	356.42	9.14	13.05

Grade 5 Supervisory Grade	6	363.09	9.31	13.05
	4 to 5	384.93	9.87	14.10
Grade 6 Farm Management Grade	6	392.34	10.06	14.10

Annex C

Comparison Table between provisions of the Agricultural Wages Order 2012 and general employment legislation

Measure	Provisions for Agricultural Workers	Provisions for Other Workers
Age from which minimum wage controls apply	Compulsory school age.	16.
Range of minimum wage rates (£ per hour)	£3.11 for workers of compulsory school age £ 6.21 to £9.40 for workers over compulsory school age	£3.68 for workers aged 16 and 17 and above compulsory school age, but under 18. £ 4.98 for workers aged 18 to 20, but under 21. £6.19 for workers 21 and over.
Apprentices	£3.57 for workers in first year of their apprenticeship £3.68 for workers in second year of their apprenticeship aged 16 to 17 £4.98 for workers in second year of their apprenticeship aged 18 to 20 £ 6.19 for workers in the second year of their apprenticeship aged 21 and over	£2.65 for apprentices under 19 or over 19 and in the first year of their apprenticeship. £4.98 for those over 19 and in the second year of their apprenticeship
Working hours to which minimum rates apply	All hours, with higher minimum rates for overtime.	All hours, but no higher rates for overtime.
Overtime	Specific overtime rates apply after 8 hours a day or 39 hours a week	No minimum statutory levels of overtime
Entitlement to paid holidays	For workers working a normal working week, 31 days. Maximum of 38 days for workers working more than 6 days a week	For workers working a normal working week, 28 days. No additional entitlement for those workers who work a longer working week.
Entitlement to rest breaks	Not less than 30 minutes	Workers aged over 18, 20

	where the daily working time is more than five and a half hours	minutes where more than six hours worked. Young workers – 30 minutes rest break, where more than four and a half hours worked
Level of holiday pay	The daily rate for annual leave is the gross contractual weekly pay divided by the number of days worked each week by the worker For workers whose gross contractual weekly pay varies, the day rate for annual leave is calculated by taking the worker's average pay over a 12 week period	A week's pay for each week of leave calculated according to the type of work carried out. For workers on fixed hours and pay, it equals the amount due for a week's work. For workers on variable hours and pay (bonus, commission or piece workers), it equals the average hourly rate multiplied by the normal working hours in a week. For shift workers, it equals the average weekly hours of work in the preceding 12 weeks at the average hourly rate. For workers with no normal working hours, a week's pay is the average pay received over the preceding 12 weeks.
Entitlement to paid sick leave and level of sick pay received	13-26 weeks on full pay after 1 year's continuous employment. SSP then applies.	Statutory Sick Pay (SSP) (currently £85.85) applies where a worker is sick for 4 days or more and has average earnings of more than the Lower Earnings Limit, currently £107 per week.
Paternity/Adoption leave	Paternity and Adoption Regulations 2002 apply.	Paternity and Adoption Regulations 2002 apply.
Bereavement leave	As for Other Workers plus up to 4 days <u>paid</u> bereavement leave.	Right to <u>unpaid</u> time off to make arrangements.
Value of Benefits	Maximum deduction from minimum pay of £1.50 per week for a house or £4.82 a day for other accommodation.	Deduction of up to £4.82 a day for accommodation.
Working Dogs	£7.63 per dog per week.	None.