

Explanatory Memorandum to the Agricultural Wages (Wales) Order 2022

This Explanatory Memorandum has been prepared Agriculture – Sustainable Development Division and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1

Minister's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of the Agricultural Wages (Wales) Order 2022. I am satisfied that the benefits justify the likely costs.

Lesley Griffiths MS

Minister for Rural Affairs and North Wales, and Trefnydd

1 April 2022

1. Description

1. The Agricultural Wages (Wales) Order 2022 (“the 2022 Order”) makes provision about the minimum rates of remuneration and other terms and conditions of employment for agricultural workers. The 2022 Order revokes and replaces the Agricultural Wages (Wales) Order 2020 (“the 2020 Order”) with changes which includes a new grading structure and minimum hourly rates of pay for agricultural workers.

2. Matters of special interest to the Legislation, Justice and Constitution Committee

2. The Agricultural Advisory Panel for Wales (“the Panel”) is an independent advisory body which was established under section 2(1) of the Agricultural Sector (Wales) Act 2014 (“the 2014 Act”) by the Agricultural Advisory Panel for Wales (Establishment) Order 2016 (“the Panel Order”) on 1 April 2016.
3. Section 2 of the Act and article 3(2) of the Panel Order specify the Panel’s functions. A key function of the Panel is to prepare agricultural wages orders in draft, to consult upon them and submit them to the Welsh Ministers for approval. In accordance with Section 4(1) of the 2014 Act, the Welsh Ministers have the power to a) approve and make the order by Statutory Instrument, or b) refer the order back to the Panel for further consideration and re-submission.
4. In accordance with the statutory requirement, the Panel submitted a draft wages order to the Welsh Ministers for approval in December 2020 following public consultation. The Panel recommended changes to simplify and modernise the agricultural wages orders, including a revised grading structure. The Panel are of the view the changes will make it easier to define an agricultural worker’s appropriate grade and will allow greater opportunity and potential to develop within the agricultural sector in Wales.
5. The intention of the Panel was to have the new Order in force on 1 April 2021, to coincide with increases to the National Living Wage (NLW) and National Minimum Wage (NMW) and avoid a transitional period during which the NLW/NMW would override the Agricultural Minimum Wage (AMW) levels. However, the scale and nature of the changes necessitated referral back to the Panel for clarification of a number of policy and legal matters. In response, the Panel made changes to their draft proposals. Some of these changes were sufficiently different so as to require a second public consultation. This took place between 20 October and 19 November 21. The Panel subsequently submitted a revised draft Order on 21 December 2021 and requested that the Order be made with retrospective effect to recompense those agricultural workers who had expected an increase in their hourly wage from 1 April 2021, as was proposed in the Panel’s targeted consultation of autumn 2020.

6. Following careful consideration, Welsh Ministers approved the draft Order and request for retrospective effect. At present, agricultural workers' wages in Wales are subject to the minimum rates specified by the Agricultural Wages (Wales) Order 2020, except for minimum rates in the Order which fall below the NMW and NLW.
7. The NMW and NLW increase on 1 April 2021 impacted on some agricultural workers in Wales, in particular affecting the minimum wage levels of Grade 1 21-24 and 25+, Grade 2 workers over 23, Grade 3 workers 23+ and Year 2 Apprentices aged 18-20, 21-24 and 25+.
8. The provisions within the Order are intended to apply retrospectively to 1 April 2021. The Panel were of the view this would recompense those agricultural workers who had expected an increase in their hourly wage from 1 April 2021, as was proposed in the Panel's targeted consultation of autumn 2020.

3. Legislative background

9. The 2022 Order is made pursuant to sections 3, 4(1) and 17 of the 2014 Act.
10. Section 3(1) provides an agricultural wages order is an order making provision about the minimum rates of remuneration and other terms and conditions of employment for agricultural workers. In particular, pursuant to section 3(2), an agricultural wages order may include provision specifying (among other things) the minimum rates of remuneration to be paid to agricultural workers.
11. Section 3(3) provides an agricultural wages order may specify different rates and make different provision for different descriptions of agricultural worker.
12. Section 4(1) stipulates the Welsh Ministers may, after receiving a draft agricultural wages order from the Panel, approve and make the order.
13. Section 17(1) provides the power to make such incidental, consequential, supplemental, transitional, transitory or saving provision as the Welsh Ministers consider necessary or expedient for the purposes of the Act and to make different provision for different purposes.
14. Pursuant to section 17(3) of the 2014 Act the Order is subject to the negative procedure.

4. Purpose and intended effect of the legislation

15. The purpose of these Regulations is to safeguard employment conditions and allowances unique to the agricultural sector. It recognises the distinct nature of agricultural employment, including seasonality, dominance of casual employment and the use of on-farm accommodation. It recognises

and rewards qualifications and experience through a five grade career structure and provides remuneration rates for each grade and category of worker.

16. The Regulations assist the effective functioning of the agricultural sector by supporting the existence of well-trained and skilled workforce which in turn can increase productivity and efficiency.
17. Ensuring wage progression for agricultural workers improves their job prospects for the future and supports rural communities through effects on household incomes.
18. It also helps farmers and farm workers to specify the terms and conditions of their employment and avoid potential disputes and the need for lengthy negotiations with individuals.

5. Consultation

19. The Agricultural Advisory Panel for Wales published a consultation paper to seek views on the Agricultural Wales Order 2022 containing changes on pay structures, minimum wage rates and allowances and other conditions of employment. The consultation was conducted from 26 October – 20 November 2020. The proposals were emailed to an extensive list of stakeholders and were made available on the Panel's web platform.
20. Key stakeholders, including the farming unions, UNITE and agricultural colleges were included in the consultation. Panel members were also encouraged to share the proposals throughout their networks.
21. There were two responses in total. One was mostly in favour of the changes, whereas the other was mostly opposed. The Panel met to discuss the responses and decided no further changes were required as a result.
22. The Panel agreed the final AMW rates via email following publication of the NMW/NLW rates on 25 November 2020. They subsequently submitted their final proposals to Welsh Government on 2 December 2020.
23. The scale and nature of the changes necessitated referral back to the Panel for clarification of a number of policy and legal matters. In response, the Panel made changes to their draft proposals. Some of these changes were sufficiently different so as to require a second consultation. This took place between 20 October and 19 November 2021.
24. Three responses were received from members of the public. Two in favour and one against. Following consideration of the responses, the Panel submitted a revised Order on 21 December 2021.

Part 2 - Regulatory Impact Assessment (RIA) of the Agricultural Wages (Wales) Order 2022

6. Proposed changes in the 2022 Order

Grading structure

25. Based upon the Panel's extensive experience in the agricultural sector, the Panel has long been of the view the previous grading structure was no longer fit for purpose. For example, grade definitions required that any agricultural worker required to work with animals, or to work with powered machinery be employed as at least a Grade 2 agricultural worker. The Panel recognised that the reality of modern farming means that the vast majority agricultural workers are required to work either with animals or with powered machinery, or both, meaning they would automatically be required to be employed as a Grade 2 worker, effectively making Grade 1 redundant. Furthermore, the Panel recognised the previous grading structure and rates could act as a deterrent to individuals considering an apprenticeship in the industry as the ability to be employed as a Grade 2 agricultural worker at a considerably higher rate from the outset may have been a more appealing prospect.
26. The Panel are of the view the revised grading structure in the 2022 Order will address these issues by providing a genuine entry level grade and reward individuals who undertake an apprenticeship.
27. The Panel further proposes removing the awards and certificates of competence required in respect of existing Grades 1, 2 and 3 (as set out in Schedules 1, 2 and 3 of the current Agricultural Wages Order 2020). The current schedule (AWO 2020) of qualifications are seen to be outdated.
28. The new structure is based on the main qualifications specified within the Welsh Government's apprenticeship frameworks relevant to the sector.
29. The main qualifications that make up the Welsh Government's apprenticeship frameworks for the sector have been considered by Lantra, in their role as the independent employer-led Sector Skills Council, as appropriate assessments of competence for learners progressing into relevant paid employment. Therefore, the Panel are of the view they provide a suitable basis for qualifications-based progression through the new grading structure.
30. Whilst the Panel intend the new grade structure to stand alone without reference to the old structure, we have made the following assumptions based on grade definitions in order to compare rates and establish impacts:

- There is no corresponding grade for Grade 1 worker under compulsory school age in the AWO 2020.
- Grade A replaces Grade 1 in AWO 2020, Grade B replaces Grade 2, Grade C replaces Grade 3 and Grade 4, Grade D replaces Grade 5 and Grade E replaces Grade 6.
- New age group classification aligned with the NMW/NLW 2021 are introduced to Grade A and Grade B workers in AWO 2022, which are corresponding to Grade 1 and Grade 2 workers in AWO 2020.
- New age group classification aligned with the NMW/NLW 2021 are introduced to Year 2 Apprentice grade in AWO 2022.

Table 1: Comparisons of grade structure between AWO 2020 and proposed AWO 2022

| AWO 2020 Grade | AWO 2022 Grade |
|---|---|
| Grade 1: worker under compulsory school age | N/A |
| Grade 1: worker (16 to 20 years of age) | A1: Agricultural Development Worker (16-17 years) |
| | A2: Agricultural Development Worker (18-20 years) |
| Grade 1: worker (21-24 years of age) | A3: Agricultural Development Worker (21-22 years) |
| | A4: Agricultural Development Worker (23 years+) |
| Grade 1: worker (aged 25+) | |
| Grade 2 worker | B1: Agricultural Worker (16-17 years) |
| | B2: Agricultural Worker (18-20 years) |
| | B3: Agricultural Worker (21-22 years) |
| | B4: Agricultural Worker (23 years+) |
| Grade 3 worker | C: Agricultural Advanced Worker |
| Grade 4 worker | |
| Grade 5 worker | D: Senior Agricultural Worker |
| Grade 6 worker | E: Agricultural Manager |
| Yr 1 apprentice | Yr 1 apprentice |
| Yr2 apprentice (aged 16 to 17) | Y2+ Apprentice (under 19) |
| Yr 2 apprentice (aged 18 to 20) | |
| Yr2 apprentice (aged 21 to 24) | Yr 2+ Apprentice (19-20) |
| | Yr 2+ Apprentice (21-22) |
| Year 2 Apprentice (aged 25+) | Yr 2+ Apprentice (23+) |
| | |

Minimum Hourly Rates of Pay

31. Under the proposed new grading structure, Grade B4 Agricultural Worker (25 years+) is +3.1% above NLW rate. Grade C – Agricultural Advanced Worker Grade is +3% above Grade B. Grade D – Senior Agricultural

Worker Grade is +9.7% above Grade C. Grade E – Agricultural Manager Grade is +9.7% above Grade D.

32. The 2022 Order aims to ensure the Welsh agricultural sector operates in accordance with provisions that are in step with current economic conditions, including increased cost of living and changes to the NMW and NLW.
33. Comparisons of minimum hourly rates of pay between the proposed new Order, NMW/NLW 2021 and AWO 2020 are shown in Table 2. It shows that, in the new proposal, minimum hourly rates for Grade B4: Agricultural Worker (23 years+), Grade D: Senior Agricultural Worker, Grade E: Agricultural Manager, and Y2+ Apprentice (under 19) are 3-6% higher than NMW/NLW or AWO 2020 rates (whichever the highest).
34. However, the hourly rates for Grade A and Apprentice are generally set as the same level as NMW/NLW. The hourly rates for workers at a younger age group are lower than the rates in the AWO 2020 which include the following grades:
 - A1: Agricultural Development Worker (16-17 years)
 - A2: Agricultural Development Worker (18-20 years)
 - B1: Agricultural Worker (16-17 years)
 - B2: Agricultural Worker (18-20 years)
 - B3: Agricultural Worker (21-22 years)
 - Yr 2 apprentice if aged 18-19 years old
35. Grade 4 workers under AWO 2020 are also moving towards a lower grade of pay at Grade C level in the new proposal from £9.53 to £9.47 per hour. This results from consolidating Grades 3 and 4 on the basis of similar duties and responsibilities.
36. To protect the pay levels for workers who will be assigned to a grade with lower minimum rates of pay under the proposed new grading structure, the Panel proposes including a provision in the 2022 Order which will provide that any agricultural worker who would suffer a reduction in their minimum rate of pay as a result of their assimilation to a lower grade or lower minimum rate of pay under the proposed new grading structure should have their wage rate frozen at their current rate of pay (i.e. the minimum rate of pay applicable to their grade under the 2020 Order, although this would still represent a fall in pay in real terms considering inflation) until the minimum rate of pay applicable to their grade under the proposed new grading structure reaches or exceeds their current rate of pay.
37. Even with this provision of protection of pay, new entrants of agricultural workers who work at initial grades (Grade A and Apprentice grades) will no longer be provided a more attractive rate than NWM/NLW. This may have some negative impact on the sector to become a viable and appealing career choice.

7. Options

38. The independent Agricultural Advisory Panel is responsible for proposing new Agricultural Wages Orders that set fair minimum rates of pay and allowances for agricultural workers. The Panel use their extensive industry knowledge and expertise in developing and negotiating proposals, and consult a wide range of stakeholders.
39. Once submitted, the Minister may only a) approve and make an order by Statutory Instrument, or b) refer the order back to the Panel for further consideration and re-submission. In developing their proposals the Panel considered a range of options, such as the model employed by the Scottish Agricultural Wages Board that abolished the grading structure in favour of a minimum hourly rate for all workers. This approach was rejected by the Panel who considered it necessary to retain a grading structure to encourage career progression and to reward experience and/or the attainment of additional qualifications.
40. The Panel also considered removing age bands as recommended by the Fair Work Commission, but felt maintaining the same level of pay regardless of age for lower grades would mean that more experienced workers could be hired for the same wage acting as a disincentive to employ younger workers. The Panel also considered re-aligning age bands with those under the NMW provided clarity, supporting the Government's aim of producing accessible law (detailed minutes of Panel meetings demonstrating how they made their decisions can be viewed at <https://gov.wales/node/119/latest-external-org-content>).
41. As a result, this impact assessment considers two policy options reflecting the baseline arrangements (defined below) and the recommendations negotiated by the Panel. Broad categories of costs and benefits are identified. Where sufficient data are available, costs and benefits are quantified for a 12-month period (until which point it is assumed that the new AWO Order will come into effect)¹. However, constrained by data availability, it is not possible to produce a fully quantified analysis of costs and benefits. Some of the costs and benefits are discussed qualitatively.
42. **Option 1: Do Nothing.** This is the baseline policy option to maintain the minimum wage rates for agricultural workers at 2020 levels in accordance with the provisions of the Agricultural Wages Order (Wales) 2020. In addition, the 2014 Act provides provisions that hourly wage rates cannot be below the statutory UK NMW/NLW. In the baseline scenario, the minimum wage rates are adjusted to the 2021 NMW/NLW rates where the rates in AWO 2020 would fall below the NMW/NLW from April 2021. The costs and benefits will be measured against this baseline policy option.
43. It is important to note that the baseline option represents a situation where the AMW regime continues. Therefore, the costs and benefits of policy

¹ Cumulative effects across years arising from AWOs are not considered within this RIA.

alternatives relative to this baseline do not include the benefits or costs associated with the existence of the AMW regime itself. Instead, it is an assessment of additional costs and benefits of the 2022 Order relative to the AWO 2020 scenario which also takes account of the NMW/NLW changes from April 2021.

44. **Option 2: Implementing New Order.** This is the policy alternative, which would involve replacing the current Order (2020) with a new Order (2022). The new order includes all the recommendations from the Agricultural Advisory Panel. The new order includes the following key changes to the minimum rates for different categories of workers (Table 2).

Table 2: Summary of proposed changes to the minimum wage rates by grade

| AWO 2020 Grade (1) | AWO 2022 Grade | AWO 2022 Rate | AWO 2020 Rate | NMW/NLW | % increase from baseline* |
|--|---|---------------|---------------|--------------|---------------------------|
| Grade 1: worker under compulsory school age | N/A | N/A | £3.60 | N/A | Same rate |
| Grade 1: worker under compulsory school age Grade 1: worker (16 to 20 years of age) | A1: Agricultural Development Worker (16-17 years) | £4.62 | £7.84 | £4.62 | Same rate |
| | A2: Agricultural Development Worker (18-20 years) | £6.56 | £7.84 | £6.56 | Same rate |
| Grade 1: worker (21-24 years of age) | A3: Agricultural Development Worker (21-22 years) | £8.36 | £8.20 | £8.36 | Same rate |
| | A4: Agricultural Development Worker (23 years+) | £8.91 | £8.72 | £8.91 | Same rate |
| Grade 1: worker (aged 25+) | | | | | |
| Grade 2 worker | B1: Agricultural Worker (16-17 years) | £4.62 | £8.72 | £4.62 | Same rate |
| | B2: Agricultural Worker (18-20 years) | £6.56 | £8.72 | £6.56 | Same rate |
| | B3: Agricultural Worker (21-22 years) | £8.36 | £8.72 | £8.36 | Same rate |
| | B4: Agricultural Worker (23 years+) | £9.19 | £8.72 | £8.91 | 3% above NMW |
| Grade 3 worker | C: Agricultural Advanced Worker | £9.47 | £8.86 | £6.56-8.91** | 6% |
| Grade 4 worker | | | £9.53 | | -0.6% to 6% or higher |
| Grade 5 worker | D: Senior Agricultural Worker | £10.39 | £10.06 | £6.56-8.91** | 3% |
| Grade 6 worker | E: Agricultural Manager | £11.40 | £10.83 | £6.56-8.91** | 5% |

| | | | | | |
|--------------------------------|---------------------------|-------|-------|-------|-----------|
| Yr1 apprentice | Yr 1 apprentice | £4.30 | £4.15 | £4.30 | Same rate |
| Yr2 apprentice (aged 16 to 17) | Y2+ Apprentice (under 19) | £4.62 | £4.37 | £4.30 | 5% |
| Yr2 apprentice (aged 18 to 20) | Yr 2+ Apprentice (19-20) | £6.56 | £6.45 | £4.30 | Same rate |
| Yr2 apprentice (aged 21 to 24) | Yr 2+ Apprentice (21-22) | £8.36 | £8.20 | £8.36 | Same rate |
| Year2 Apprentice (aged 25+) | Yr 2+ Apprentice (23+) | £8.91 | £8.20 | £8.91 | Same rate |
| | | | £8.72 | £8.91 | Same rate |

Note: *taking account of provision of pay protection in AWO 2022**assuming aged 18 or over

45. The increase from the baseline ranges between 3-6% for the grades with hourly wage rates set above the NWM/NLW levels. This compares to the average year-on-year growth of 2.1 % in regular pay and 1.8% in total pay in the UK between January 2020 to December 2020 (Source: ONS <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/averageweeklyearningsearn01>).

46. The monthly average for the 12-month Consumer Price Inflation (CPI) rate was 0.9% in 2020 (Source: ONS <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/january2021>).

47. The Panel considered a range of statistical information including published data on cost of living increases and the retail index as well as the projected rises to the NMW/NLW rates when discussing and negotiating their recommendations for the Order. Detailed minutes of Panel meetings demonstrating how they arrived at their decisions can be viewed at <https://gov.wales/node/119/latest-external-org-content>

Grade A worker over compulsory school age (16-22 years and 23 years+)

48. Grade A workers have four age groups and corresponding grades:

- A1 – Agricultural Development Worker (16 – 17 years);
- A2 – Agricultural Development Worker (18 - 20 years);
- A3 – Agricultural Development Worker (21 – 22 years); and
- A4 – Agricultural Development Worker (23 years+)

49. The hourly minimum wages rates in the proposal are set at the same level of NMW/NLM rates. Although these rates are lower than the rates in AWO 2020, the change in minimum pay levels relative to baseline will be zero due to the provision of protection of pay in the proposed AWO 2022 (although this would still represent a fall in pay in real terms considering

inflation) and the definition of Grade 2 in the AWO 2020 effectively making Grade 1 redundant.

50. Therefore, the impact on workers classified into these grades will be zero.

Grade B worker over compulsory school age (16-22 years and 23 years+)

51. For new entrants of Grade B workers, the proposed minimum hourly wage rates are set at the same level as NMW/NLW rates, with the exception of Grade B4 which is 3% higher. However, for workers aged 16-22 years who are previously classified as Grade 2 labour in AWO 2020 the newly proposed rates are lower. Their pay will be protected at the current AWO 2020 levels hence zero changes relative to baseline (although this would still represent a fall in pay in real terms considering inflation).

52. Although the number of farmer workers under the age of 25 was estimated to account for 33% of total number of the farmer workers in Wales², there is no estimate available on subgroups by grade, or on the number of current workers and the number of new entrants each year. Therefore, it is not possible to estimate the impact of hourly wage rate change for Grade B workers by age group.

53. Assumptions are made to estimate the impact on Grade B workers. Assuming the number of new entrants is small³ and the impact is negligible, all Grade 2 workers aged between 16-22 years will be classified into a lower rate of pay at Grade B1-B3 in AWO 2022. Due to the provision of protection of pay, the impact on these workers will be zero (although this would still represent a fall in pay in real terms considering inflation). The wage changes for current Grade 2 workers are therefore mainly for those who are aged 23 years and older (Grade B4 under AWO 2022). The hourly wage rate difference will be £0.28.

54. In absence of data on the distribution of Grade 2 workers by age, the value range of wage cost impact is estimated. The lowest wage impact would be to assume that none of the Grade 2 workers are 23 years or older (Grade B4) and the impact will be zero. The highest wage impact would be to assume all of Grade 2 workers are 23 years or older and will be classified as Grade B4 in AWO. Estimates are also made based on variations in the proportion of Grade B4 workers to include estimated values for a share of 25% and 50%.

² Source: Brookdale Consulting Report to the Welsh Government (2018). Agriculture in Wales: Future Labour Requirements for Welsh Agriculture 2017–2025.

³ There is data available from the Lifelong Learning Record Wales (LLWR) on qualifications taken by agriculture apprenticeships suggesting that c.500 each year agricultural apprentices in the three years from 2017/18 to 2019/20.

Grade C-E workers

55. Grade C in AWO 2022 corresponds to two grades (Grade 3 and Grade 4) in AWO 2020.
56. Grade 4 workers will have a lower pay rate in AWO 2022 but the wage impact will be zero as a result of the provision of protection of pay (although this would still represent a fall in pay in real terms considering inflation).
57. Grade 3 workers will be classified into Grade C in AWO 2022 and will have increase of 6% in their hourly wage rate.
58. Grade 5 workers will be classified into Grade D in AWO 2022 and have an increase of 3% in hourly pay rate.
59. Grade 6 workers will become Grade E and have an increase of 5% in their hourly rate of pay.
60. Current Grade 3, 5, 6 workers (moving to Grade C, D and E) will benefit from an increase in hourly wage rate in AWO 2022.
61. In terms of pay differential between grades (see Table 3), Grade D and Grade E within the proposed 2022 Order (equivalent to Grade 5 and 6 in AWO 2020) have a slightly larger difference (10%) with the immediate lower grade. Previously, the in-grade difference for grades (4-6) are maintained the level of 6-8%. The merge of Grade 3 and Grade 4 to become Grade C may have contributed to this change to some extent where the difference between Grade D and Grade C in AWO 2022 represents the difference between Grade 5 and Grade 3 (not Grade 4).

Table 3: Hourly Wages Rates by Grade in AWOs 2016-2020, AWO 2022 proposal and in-grade Differences.

| Grade | Wage Rates 2016-2021 | | | | | | In-grade difference, 2016-2021 | | | | | |
|---------------------------|----------------------|--------|--------|--------|--------|--------|--------------------------------|------|------|------|------|------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Grade 1 worker (aged 25+) | £7.20 | £7.51 | £7.83 | £8.21 | £8.72 | £8.91 | - | - | - | - | - | - |
| Grade 2 worker | £7.39 | £7.54 | £8.29 | £8.45 | £8.72 | £8.91 | 10% | 0.4% | 6% | 3% | 0% | 6% |
| Grade 3 worker | £8.12 | £8.22 | £8.54 | £8.70 | £8.86 | £9.47 | 10% | 9% | 3% | 3% | 2% | 3% |
| Grade 4 worker | £8.72 | £8.82 | £9.16 | £9.36 | £9.53 | £9.53 | 7% | 7% | 7% | 8% | 8% | 0% |
| Grade 5 worker | £9.23 | £9.34 | £9.70 | £9.88 | £10.06 | £10.39 | 6% | 6% | 6% | 6% | 6% | 10% |
| Grade 6 worker | £9.97 | £10.09 | £10.48 | £10.64 | £10.83 | £11.40 | 8% | 8% | 8% | 8% | 8% | 10% |

Source: Hourly wage rates are from AWOs 2016-2020 and AWO 2022 proposal. Percentage paid above the previous grade is calculated from minimum hourly wage rates.

Year 1 and Year 2 Apprentice

62. The minimum wage rates for the Year 1 and Year 2 apprentices within the 2022 Order are set as the same levels as the NMW/NLW 2020 apart from Year 2 apprentices under 19 years old. For this group, the hourly wage rate is higher than the NMW/NLW rates for Apprentice which other sectors would abide to. However, Yr2 apprentice aged 18-19 years old within the group of Yr2 apprentice (under 19) is graded at a lower level of pay compared to the AWO 2020 rate (£4.62 per hour in AWO 2022 vs. £6.45 per hour in AWO 2020).
63. In addition, Y2 apprentices aged 19 years and above will no longer benefit from a preferential rate above the NMW/NLW.
64. As there is no data available on the number of apprentices working in the agricultural section in Wales, the impact of changes in minimum wage rates of these Apprentice grades cannot be quantified.

Changes in other provisions

65. In addition to the changes in minimum wage rates for different types of agricultural workers, there are a few other changes in other provisions including: changes to the dog allowance, night allowance and birth and adoption grants, all of which have a 2.5% increase from the AWO 2020 rate (see Table 4).
66. The Panel considered a range of statistical information including published data on cost of living increases and the retail index when discussing and negotiating changes to the provisions in the Order. Detailed minutes of Panel meetings demonstrating how they arrived at their decisions can be viewed at <https://gov.wales/node/119/latest-external-org-content>.

Table 4: Changes to other provisions

| Type | AWO 2020 | AWO 2022 | % increase |
|---------------------------|----------|----------|------------|
| Dog allowance | £8.32 | £8.53 | 2.5% |
| Night allowance | £1.58 | £1.62 | 2.5% |
| Birth and adoption grants | £65.45 | £67.09 | 2.5% |

67. The costs and benefits of these changes cannot be quantified due to lack of data.

Summary of quantification of wage costs/earnings

68. Due to data availability, the breakdown by grade is not available for many of the worker groups. Therefore, only the costs and benefits associated with agricultural workers for current Grade 1 (aged 25+) to Grade 6 (i.e. Grade B4, Grade C-E in the AWO 2022 provision) were estimated for both

basic pay and overtime pay in the RIA where the number of workers in each grade were estimated based on data from Farm Labour and Wage Statistics (Defra, 2012)⁴. These estimates were based on Defra's costings model and the hours worked per week collected from the Earnings & Hours survey, run by Defra's Economics and Statistics Programme.

69. The hours were broken down into basic and overtime, and the calculation of the wage costs reflected this. Although the data is dated, it represented the only available source of data that contained break down information by grade of workers. It should also be noted that this was not Wales specific data and represented the labour structure by grade of workers for England and Wales. Therefore, the assumption was made that the labour structure in Wales was similar to the overall estimate made by Defra in their survey and remained a relevant benchmark for agricultural labour force by grade. The use of 2012 Defra labour survey data affected the data quality of the estimates underpinning this RIA.
70. ADAS carried out an online survey of agricultural employers and employees recently in an attempt to gather more up-to-date information on agricultural workers. However, only a low number of responses was achieved in this survey and therefore the survey data is only indicative but not representative of the sector. The low response rate however, might be a reflection of low level of use of AWO 2020 by farm employers. Therefore, the impact of AWO is likely to be a lot less as anecdotally many employers pay market rates well above the minimum rates and the use of AWO by employers is at low levels.
71. The changes in costs or benefits related to other categories of workers are not quantified due to lack of data.

Enforcement cost

72. In terms of enforcement costs, it is anticipated that administrative costs accruing to the Welsh Government would be broadly similar under Agricultural Wages Order 2020 as the Welsh Government is enforcing the Orders introduced under the 2014 Act.
73. The government enforcement costs associated with the 2014 Act for enforcing the provisions of the 2012 wages order was estimated at around £3,000 per year in the previous RIAs of the wages orders. This was based on a reactive enforcement mechanism, where the Welsh Government would investigate any claims of potential underpayment and if necessary, issue enforcement notices. There were five formal cases needing varying levels of investigation during 2016-2020.
74. It is difficult to predict the number of cases arising, or their precise nature. Enforcement costs continue to be based on the assumption that there are

⁴ Available at:

<http://webarchive.nationalarchives.gov.uk/20130123162956/http://www.defra.gov.uk/statistics/files/defra-stats-foodfarm-farmmanage-earnings-labour2012-120627.pdf>

two cases per year to investigate and remain at the same level as in previous years.

Administrative cost

75. In addition to the cost of compliance, there will be a cost to farm businesses for adjusting to the requirements of the 2022 Order.
76. Farmers with relevant labour will need to be familiar with both the Welsh AWO provisions and UK labour legislation (for example, in relation to the NMW) to ensure that workers are being correctly remunerated.
77. It is assumed that each employer would need -two hours⁵ to familiarise themselves with the 2022 Order and make adjustments to pay rates and other provisions. Based on data from the Office for National Statistics (ONS)' Annual Survey of Hours and Earnings (2020)⁶, it is assumed that the average cost per hour of a farmer's time is £12.25 (average for all employees in the agriculture, forestry and fishing industry, excluding overtime pay). The median value of agricultural labour cost from the same source was £10.20 per hour. In addition, the hourly rate used here is an average/median value for all farm workers. In reality, however, those individuals whose time is involved are likely to be the farmer owners or farm business managers. Wage rates of these farmers are likely to be at the higher end of the wage rate distribution.
78. According to ONS statistics on business population by region and by sector, there are 14,800 businesses in agriculture, forestry and fishing sector in Wales in 2020 with 2,905 businesses being employers⁷. The administrative costs to farm businesses are therefore estimated at £71k for Wales assuming two hours required per business. If using the median value for the labour cost (£10.20 per hour), the total admin costs to farm businesses are estimated at £59k. The estimated cost would be higher if the wage rates for farm managers/owners were used and non-wage costs were reflected in the rates.
79. However, it should also be noted that not all the 2,905 agricultural businesses who employed labour use the AWO, but it is not known exactly how many do use the AWO.

⁵ This is consistent with the estimates used in the RIA of abolishment of AWB by Defra and the RIA of the Act 2014.

⁶ Estimates for 2020 (provisional) of paid hours worked, weekly, hourly and annual earnings for UK employees by gender and full/part-time working by 2 digit Standard Industrial Classification 2007. Industry (2 digit SIC) - ASHE: Table 4.6a. Available at: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/industry2digitsicashetable4>

⁷ Table 21 Number of businesses in the private sector and their associated employment and turnover, by number of employees and industry section in Wales, start 2020 within statistics on BUSINESS POPULATION ESTIMATES FOR THE UK AND REGIONS 2020. Available at: <https://www.gov.uk/government/statistics/business-population-estimates-2020>.

80. According to the survey conducted by ADAS in early 2016, about 20% of the agricultural businesses who employed paid labour referred to the AWO. A more recent but small-scale online survey and interviews with accountants completed by ADAS (2020) indicated that there might be a decline in use of AWO legislation in recent years.

Evidence Review

81. In this RIA, we have reviewed the evidence presented in the previous RIAs of AWOs 2016-2020 and considered additional literature where relevant. Our conclusion is that the key points made in the previous RIAs on the minimum wage impacts are still valid, which are summarised below. However, it should be noted that the evidence was focused on the impact of minimum wages while the economic evidence on the effects of the multi-grade minimum wage structure (i.e. multiple wage floors) is rather limited.

82. *Employment:* Provided minimum wage levels are set cautiously, their negative effect on employment levels within affected sectors can be minimised. Some evidence has been found for a reduction in hours worked, but this is not conclusive. There is also evidence suggesting that the introduction of the minimum wages was associated with an increase in labour productivity. On balance, the evidence suggests that there are limited effects of the introduction of the minimum wages on employment. This is especially the case where the minimum wage rates have been set incrementally within context of economic/labour market conditions. However, if the minimum wage is set too high, some literature suggests that it can result in job losses causing adverse effects on demand in the macro economy⁸.

83. *Wage rates and structure:* If minimum wages are set above current market rates, they act to raise the wage floor, tending to compress the wage structure by raising the wages of the lowest paid relative to others. The effect may be transmitted up the pay structure, leading to wage rises for those being paid more than the statutory minimum, although the extent to which this has taken place has varied across different minimum wage regimes. The latest living standards, poverty and inequality report published by the IFS states that average earnings growth throughout the pandemic was stronger amongst public sectors workers and for workers with lower education levels – the significant rise in the National Living Wage in 2020 is the likely reason, increasing wages in lower skilled jobs (IFS, 2021)⁹.

84. The average minimum wage in the EU is still only slightly above the poverty wage (Schulten, T. and Müller, T., 2019).

⁸ Clemens, J., 2021. How do firms respond to minimum wage increases? understanding the relevance of non-employment margins. *Journal of Economic Perspectives*, 35(1), pp.51-72.

⁹

85. *In-work poverty*: Minimum wages tend to benefit the lowest-earning working -individuals, thus having some positive impact on in-work poverty. This positive impact, however, may not necessarily positively impact on low earning households. Overall, the impact of minimum wages on poverty is very small. The Institute for Fiscal Studies (IFS)¹⁰ has found that the NLW will raise household incomes by less than 1% on average, including poorer households. The most recent IFS study (2021) suggests shows that increases in employment income have pushed up incomes across the income distribution between 2017–18 and 2019–20 but that this benefited middle- and high-income households more than lower-income households. The IFS study presents two reasons for this. One reason is that the growth rate in employment income was lower for lower-income households than it was for higher-income households over these two years. The other reason is that employment income makes up a lower share of net income for poorer households (as poorer households generally also receive benefit incomes), therefore, the same growth rate in employment income does not push up the income of poorer households by as much (in percentage terms).
86. *Company level impacts*: Research suggests that firm responses to involuntary increases in wage costs can include increasing prices, increasing labour productivity¹¹, accepting reduced profits, organisational changes (such as tighter human resource practices, increased performance standards at work, and better management practices), efficiency wage¹² and training responses (increasing training provisions to employees). Some businesses may look to upskill some roles and increase productivity to recoup higher wage costs¹³. Increases in the NMW may encourage firms to reduce costs or accept lower profit margins. There is a risk for businesses that were already close to the margin of exit, to exit the market when the NMW increases¹⁴. In the modern economy firms may also adjust production functions in order to reduce overhead costs. This may come in the form of new technologies and increased reliance on capital and high-skilled labour with reduce reliance on lower skilled labour¹⁵.

¹⁰ Institutes for Fiscal Studies (IFS), 2016-2021. Living Standards, Poverty and Inequality in the UK: 2015-16 to 2020-2021. IFS Report Series R114-R194. Available at: https://ifs.org.uk/tools_and_resources/incomes_in_uk

¹¹ Data from low-paying sectors in Britain (using difference-in-differences analysis) illustrates that the NMW positively affected aggregate low-paying sector productivity. Source: Risov, M. et. al. (2016). The UK National Minimum Wage's Impact on Productivity.

¹² The efficiency wages are based on the notion that wages do not only determine employment but also affect employees' productive behaviour or quality. Under certain conditions, it is optimal for employers to set compensation above the market clearing level in order to recruit, retain or motivate employees.

¹³National Institute of Economic and Social Research (2018). National Minimum Wage and National Living Wage Impact Assessment-Counterfactual Research. A report to the Department for Business, Energy & Industrial Strategy (2018).

¹⁴ Luca, D.L. and Luca, M., 2019. Survival of the fittest: the impact of the minimum wage on firm exit (No. w25806). National Bureau of Economic Research.

^{15,16} Clemens, J., 2021. How do firms respond to minimum wage increases? understanding the relevance of non-employment margins. Journal of Economic Perspectives, 35(1), pp.51-72.

87. Furthermore, in response to an increase in the minimum wage, some firms will increase the price of goods and services. This is known as a 'pass through'. However, a firm's ability to adjust prices as a result of increases in the NMW depends on the elasticity of demand for their goods or services. If demand is perfectly elastic, increases in demand may result in a complete loss of customers¹⁶. As the demand for agricultural/farm goods is generally inelastic to prices, it is likely that the increases in labour cost will pass onto the consumers. However, as most farmers lack the economic power to negotiate better prices for their inputs and crops, increases in labour costs might mean their profit margins will be squeezed, at least in the short term.

88. The relationships between company level responses and the pay structure with multiple minimum wage levels are an under-explored area within the literature. This seems unlikely to change given the limited use of multiple minimum wage arrangements.

Table 5: Comparisons between AWO 2020 and proposed AWO 2022

| AWO 2022 Grade | AWO 2020 Equivalent | Age | AMW 2020 | Rate from 1 April 2021 (raised to NMW / NLW) | Proposed AMW rate 2021/22 | Diff from AWO 2020 |
|------------------|---------------------------------|-------|----------|--|---------------------------|--------------------|
| N/A | Grade 1 (compulsory school age) | | £3.60 | £3.60 | N/A | N/A |
| Grade A1 (16-17) | Grade 1 (16-20) | 16-17 | £7.84 | £7.84 | £4.62 | -£3.22 |
| Grade A2 (18-20) | Grade 1 (16-20) | 18-20 | £7.84 | £7.84 | £6.56 | -£1.28 |
| Grade A3 (21-22) | Grade 1 (21-24) | 21-22 | £8.20 | £8.36 | £8.36 | £0.00 |
| Grade A4 (23+) | Grade 1 (21-24) | 22-24 | £8.20 | £8.91 | £8.91 | £0.00 |
| Grade A4 (23+) | Grade 1 (25+) | 25+ | £8.72 | £8.91 | £8.91 | £0.00 |
| Grade B1 (16-17) | Grade 2 | 16-17 | £8.72 | £8.72 | £4.62 | -£4.10 |
| Grade B2 (18-20) | Grade 2 | 18-20 | £8.72 | £8.72 | £6.56 | -£2.16 |
| Grade B3 (21-22) | Grade 2 | 21-22 | £8.72 | £8.72 | £8.36 | -£0.36 |
| Grade B4 (23+) | Grade 2 | 23+ | £8.72 | £8.91 | £9.19 | £0.28 |
| Grade C | Grade 3 | >23 | £8.72 | £8.72 | £9.19 | £0.47 |
| Grade C | Grade 3 | 23+ | £8.86 | £8.91 | £9.47 | £0.56 |
| Grade C | Grade 4 | N/A | £9.53 | £9.53 | £9.47 | -£0.06 |
| Grade D | Grade 5 | N/A | £10.06 | £10.06 | £10.39 | £0.33 |
| Grade E | Grade 6 | N/A | £10.83 | £10.83 | £11.40 | £0.57 |
| Apprentice: | | | | | | |
| Yr 1 | Yr 1 | N/A | £4.15 | £4.30 | £4.30 | £0.00 |
| Yr 2 (under 19) | Yr 2 (16-17) | 16-17 | £4.37 | £4.37 | £4.62 | £0.25 |
| Yr 2 (under 19) | Yr 2 (18-20) | 18 | £6.45 | £6.45 | £4.62 | -£1.83 |
| Yr 2 19-20 | Yr 2 (18-20) | 19-20 | £6.45 | £6.56 | £6.56 | £0.00 |
| Yr 2 21-22 | Yr 2 (21-24) | 21-22 | £8.20 | £8.36 | £8.36 | £0.00 |
| Yr 2 23+ | Yr 2 (21-24) | 23-24 | £8.20 | £8.91 | £8.91 | £0.00 |
| Yr 2 23+ | Yr 2 (25+) | 25+ | £8.72 | £8.91 | £8.91 | £0.00 |

Allowances

89. Agricultural wages orders provide a range of additional agriculture related allowances. Some of these are linked to the appropriate basic pay rates, such as overtime rates and on-call allowance. These provisions acknowledge the very seasonal nature of agricultural work in many agricultural sectors, for example many workers are required to work above their contracted hours during lambing or at harvest time. The 2022 Order will maintain overtime rates at 1.5 times above the applicable basic rates – this will apply to all workers and apprentices.

90. The Dog and Night Work Allowances recognise that workers often require a dog to assist them in carrying out their duties and that agricultural

workers can be required to work at times outside the normal working day for example to assist in maintaining animal welfare standards.

91. The Dog Allowance is paid weekly where an agricultural worker is required by their employer to keep one or more dogs.
92. The Night Work supplement is paid for each hour of night work and is applicable to work undertaken between 7pm in the evening of a given day and 6am the next morning. It is payable on top of the worker's applicable hourly rate however it does not apply for the first two hours of night work.
93. The Birth and Adoption Grant is a payment that an agricultural worker is entitled to receive from their employer on the birth of their child or upon the adoption of a child. The grant is payable on production of the child's Birth Certificate or Adoption Order.
94. Comparisons between the rates in AWO 2020 and the new proposal are presented in **Table 6**. Changes in these allowances represent 2.5% increase from the 2020 Order. The rates were negotiated by the Panel, taking into account proposals from the worker and employer representatives. Minutes of Panel meetings demonstrating how they made their decisions can be viewed at <https://gov.wales/node/119/latest-external-org-content>

Table 6: Comparisons between AWO 2020 and the new proposal

| Allowances | AWO 2020 | AWO 2022 | Unit |
|----------------------------|-----------------|-----------------|------------------------|
| Dog Allowance | £8.32 | £8.53 | Per Dog per Week |
| Night Time Work Allowance | £1.58 | £1.62 | Per Hour of Night Work |
| Birth / Adoption Allowance | £65.45 | £67.09 | Each child |

Accommodation offset allowance

95. Clarifications on accommodation offset allowance are also proposed as follows:
- “(1) Where in any week an employer provides an agricultural worker with a house for the whole of that week, the employer may deduct the sum of £1.50 per week from the agricultural worker's wage payable for that week.*
- (2) a “house” in article 16(1) and 16(4) means a whole dwelling house or self-contained accommodation (including any garden within the curtilage of such a dwelling house or self-contained accommodation) that by virtue of the agricultural worker's contract of service the agricultural worker is required to live in for the proper or better performance of their duties.*

(2)(3) Subject to paragraphs (35) and (46), where in any week an employer provides an agricultural worker with other accommodation, the employer may deduct the sum of £4.82 per day, from the agricultural worker's wage payable for each day in the week that the other accommodation is provided to the worker.

(4) "other accommodation" in article 16(3) means any living accommodation other than a house which—

(a) is fit for human habitation;

(b) is safe and secure;

(c) provides a bed for the sole use of each individual agricultural worker; and

(d) provides clean drinking water, suitable and sufficient sanitary conveniences and washing facilities for agricultural workers in accordance with regulations 20 to 22 of the Workplace (Health, Safety and Welfare) Regulations 1992 (I) as if the accommodation was a workplace to which regulations 20 to 22 of those Regulations applied."

Costs & benefits

96. This section assesses the potential costs and benefits for both policy options. The intention is for the provisions of the Order to be backdated to 1 April 2021. The impact is considered for a 12 month period from 1 April 2021 and 31 March 2022.

97. Significant limitations exist across data and methodology. Specifically, disaggregated up to date data for Wales are not always available and few methodologies exist to demonstrate the relationship between employment, business performance of the agricultural sector and minimum wages. As a result, some impacts cannot be quantified with any degree of accuracy. The quantification was focused on the impact on wage costs/earnings for Grade 1-6 (Grade B4, Grade C-E in the 2022 Order) agricultural workers where disaggregated data are most available. However, the distribution by grade of workers was based on the 2012 Defra study which is not Wales specific data and is relatively dated, affecting the data quality of the estimates underpinning this RIA. Despite its limitations it remains the most relevant benchmark for agricultural labour force by grade. The impact on other categories of workers or the impact of changes in allowances generally affect very small groups of workers and therefore the impacts are expected to be minimal. Due to lack of detailed data on these groups, the impacts of changes related to them were not estimated. However, the administrative costs to the farmers are estimated for their time to familiarise themselves with and make adjustments in accordance to the 2022 Order. Where estimates are provided, they are indicative, with Appendix A containing the detailed calculations of how these estimates were derived.

98. In terms of minimum wage rate changes, the 2022 Order represents a rise of 3-6% rise for agricultural workers within Grade C-E. This affects over 3,300 workers (with 28% of whom being part-time and casual workers) out of the 15,500 paid agricultural workers in Wales in 2020.

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

- **Option 1:** Baseline option.
- **Option 2:** Provides more detailed estimates as to the impact of changes in minimum wage levels for Grades 1 to 6, aiming to calculate additional impacts that directly relate to Option 2.

Option 1: Do nothing

This is the baseline option and as such there are no additional costs or benefits associated with this 'do nothing' option.

Option 2: Introducing Agricultural Wages (Wales) Order 2022 to replace AWO 2020.

Impact on Employment

100. Empirical studies examining the employment impacts of the NMW/NLW suggest minimal effect of minimum wages on employment despite this legislated rise in earnings for the lowest paid¹⁷. This is consistent with the findings from the literature review in the previous RIAs of AWO 2016-2020 for Wales.

101. In the previous RIAs, employment effect was estimated using a minimum wage elasticity of -0.19 (an average value from the literature). This mean value was based on a meta-analysis¹⁸ (carried out in 2017) of 236 estimated minimum wage elasticities from 16 UK studies. The median value from these 236 estimated elasticities was much smaller at -0.03 which means increases in minimum wages would lead to statistically insignificant reductions in employment. A more recent comprehensive systematic review and meta-analysis of the UK NMW empirical research carried out RAND Europe¹⁹ suggests an even smaller employment effect no overall statistically or economically significant adverse employment effect, neither on employment and hours nor on employment retention probabilities. The minimum wage elasticities reported by this study were -0.0097 and -0.0022 when considering partial correlations. This adverse

¹⁷ Dube, A. (2019). Impacts of minimum wages: review of the international evidence.

Riley, R. and Bondibene, C. (2015). Raising the Standard: Minimum Wages and Firm Productivity. National Institute of Economic and Social Research.

Aitken, A. et. al. (2019) conducted a difference-in-differences analysis to evaluate the impact of the introduction of the National Living Wage (NLW) in 2016. In their study "The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages", they found that NLW upratings have increased wages for the low paid with generally little adverse effect on employment retention.

¹⁸ A statistical analysis of a large collection of results from individual studies for the purpose of integrating the findings.

¹⁹ Hafner, M et.al, 2017. The impact of the National Minimum Wage on employment: a meta-analysis. A report for the UK Low Pay Commission.

employment effect is so small that it is negligible and has no meaningful policy implication.

102. The agricultural labour force in Wales in 2020 totalled 52,800 people, with 15,500 of these being employed as farm workers (see Table 12 Appendix A). No data is available as to the proportion of the total farm workers in each grade in Wales. However, Defra produced such data for the UK as a whole for 2012 based on historic data and assumptions. The estimates from this study can be combined with the 2020 data for the total agricultural labour force in Wales to provide crude estimates of workforce grade composition (see in Table 13 Appendix A). It is estimated that some 3,000 workers may be within Grade 1; 8,000 workers within Grade 2 and some 3,300 workers within Grades (3-6) based on the current AWO 2020 grading system.
103. Based on these estimates, an application of the mean elasticity estimate (-0.19) and the assumption that workers move from the current minimum to the new minimum wage, it is estimated that there would be a reduction in employment between 15 and 66 farm workers (see Table 23 in Appendix B for detailed calculations). It should be noted that these minimum pay rate increases are not the full difference between AWO 2020 and the 2022 Order; instead, it has taken account of forthcoming increases in NMW and NLW from April 2021. If using the median value of elasticity coefficient -0.03, the reduction in employment would be between 2 to 10 people (see Table 24 at Appendix B). If using the elasticities of -0.0097 and -0.0022, the reductions in employment would be negligible. Overall, the impact on employment is minimal.
104. In terms of reductions to hours worked, some evidence²⁰ suggests that it is likely that some farm businesses will seek to absorb higher labour costs through reducing the number of hours worked in addition to other effects on employment, although this cannot be estimated with any degree of accuracy.
105. However, evidence from the literature suggests that this effect might be limited.
106. A review of international evidence on the impacts of minimum wages (Dube, 2019) suggests that the link between increases in the NMW and the number of hours worked has been found to be relatively weak. A study

²⁰ Dube, A. (2019). Impacts of minimum wages: review of the international evidence. Low Pay Commission (LPC) reviewed the impact of the National Minimum Wage (NMW) in 2019 and concluded that in general there was little effect on employment but found some evidence that the NMW had led to small reductions in hours. Although the evidence suggested that the introduction of the NLW in 2016 and the subsequent upratings in 2017 and 2018 did not affect working hours for any of main groups of directly affected employees. This report is available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852508/The_impact_of_the_minimum_wage_on_employment_and_hours.pdf

by Stewart and Swaffield (2008)²¹ found that the introduction of the NMW resulted in a reduction of between one and two hours a week in total and basic hours for low-paid employees. The study by Aitken et al. (2018)²² found very limited evidence that the NLW had an impact on the number of hours worked by those who remained in employment following its introduction. The analysis of the LFS found some signs that the introduction of the NLW resulted in a slight reduction in hours for women working part-time. This was contradicted by the analysis of ASHE, but there were signs that when using ASHE the assumptions underlying the methodological approach were violated. There was no evidence that the introduction of the NLW was associated with a reduction in hours for any other groups of employees. There is evidence that some groups of employees experienced a reduction in hours in response to larger increases in the NMW in 2001 and 2003 (Dickens et al. (2009)²³)

Earnings

107. In 2012, Defra published a labour force model which was used to calculate gross wage costs at a UK level. Although this data is dated and not Wales specific, it is the only available source of data on agricultural labour by grade. Based on the Defra survey data, the estimated additional costs of the proposed pay rate increases for each worker type (full time, part time and casual) have been calculated by multiplying the increase per hour for the respective grades, the number of hours worked per week, the number of weeks worked per year and the number of workers in the industry (not adjusted to taking account of non-wage labour costs). There are separate costings for basic and overtime.
108. As disaggregated data by grade of workers for Wales were not available, the cost estimates are based on these 2012 UK assumptions combined with 2016 percentage composition of different types of workers (full-time, part-time and seasonal) and 2020 agricultural labour force data for Wales (see Table 12 to Table 15 in Appendix A) of changes in gross annual wage costs for Option 2 relative to the baseline option. These estimates are also provided in
109. Table 7 and Table 8, which suggest that the changes in costs for Option 2 are estimated between £1.4-£3.5 million in 2020-21. This represents a transfer from farm businesses to farm labour, with the former incurring an equivalent cost of £1.4-£3.5 million. However, these calculations assume employers are using the AWO when setting wage rates. Given that the available evidence suggests fewer than 20% use the AWO, the impact on wages/costs is likely to be much lower.

²¹ Stewart, M. B. and Swaffield, J. K. (2008). The other margin: Do minimum wages cause working hours adjustments for low-wage employees? *Economica*, 75(297):148-167.

²² Aitken, A., Dolton, P. and Riley, R. (2018). The Impact of the Introduction of the National Living Wage on Employment, Hours and Wages. Research Report, Low Pay Commission.

²³ Dickens, R., Riley, R., and Wilkinson, D. (2009). The employment and hours of work effects of the changing national minimum wage. Research report, Low Pay Commission.

110. Although the basis used to estimate the number of workers in each grade, the number of hours worked per week and the number of weeks worked per year is partly relying on historic data from the 2012 Defra cost model, it still represents the best estimate that is available for calculating the additional labour costs as a result of pay rate rises. It should also be noted that this was not Wales specific data. The use of this data affected the data quality of the estimates underpinning this RIA.

111. Despite this, the fact the data is dated and not Wales specific will affect the data quality of the estimates underpinning this RIA.

112. It should also be noted that the difference in minimum wage rates between Option 1 and 2 is not the full difference between AWO 2020 and the 2022 Order. It also takes account of statutory NMW and NLW from April 2021.

Table 7: Estimated changes in annual wage costs, waged agricultural workforce, Wales 2020-21 (a-c) assuming 0% Grade 2 of AWO 2020 transferred to Grade B4 in AWO 2022

| Grade | Full-time (£) | | Part-time (£) | | Casual (£) | | Total (£) |
|------------------|-----------------|-----------------|-----------------|-----------|------------|-----------|-------------------|
| | Basic | Overtime | Basic | Overtime | Basic | Overtime | |
| A1-A4 | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| B1-B4 | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| C | £422,054 | £98,169 | £147,254 | £0 | £0 | £0 | £667,476 |
| C | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| D | £303,979 | £70,705 | £37,189 | £0 | £0 | £0 | £411,873 |
| E | £238,661 | £55,512 | £21,412 | £0 | £0 | £0 | £315,585 |
| Total (£) | £964,694 | £224,386 | £205,855 | £0 | £0 | £0 | £1,394,935 |

Notes:

(a) Data assumes that workers are earning no more than the hourly minimum.

(b) Defra assumed that part-time workers do not work overtime.

(c) Totals may not sum due to rounding.

Source: Authors' calculations

Table 8: Estimated changes in annual wage costs, waged agricultural workforce, Wales 2020-21 (a-c) assuming 100% Grade 2 of AWO 2020 transferred to Grade B4 in AWO 2022

| Grade | Full-time (£) | | Part-time (£) | | Casual (£) | | Total (£) |
|-------|---------------|----------|---------------|----------|------------|----------|------------|
| | Basic | Overtime | Basic | Overtime | Basic | Overtime | |
| A1-A4 | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| B1-B4 | £914,450 | £212,699 | £662,643 | £0 | £312,308 | £51,266 | £2,153,365 |
| C | £422,054 | £98,169 | £147,254 | £0 | £0 | £0 | £667,476 |
| C | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| D | £303,979 | £70,705 | £37,189 | £0 | £0 | £0 | £411,873 |

| | | | | | | | |
|------------------|------------|----------|----------|----|----------|---------|-------------------|
| E | £238,661 | £55,512 | £21,412 | £0 | £0 | £0 | £315,585 |
| Total (£) | £1,879,144 | £437,085 | £868,498 | £0 | £312,308 | £51,266 | £3,548,300 |

Notes:

(a) Data assumes that workers are earning no more than the hourly minimum.

(b) Defra assumed that part-time workers do not work overtime.

(c) Totals may not sum due to rounding.

Source: Authors' calculations

113. Option 2 may create a wage difference between Wales and England, potentially disadvantaging farmers who largely compete with producers based in England, as is the case for the dairy industry. More generally, this would affect actual wage rates/terms and mobility of labour and potentially increase to the cost base. This relative increase to the cost base may accentuate the degree to which decreases in profits/ hours worked, or increases in prices may take place. However, farmer businesses in Wales are generally price-takers with limited power to influence the price of their goods and there will be limited scope to pass on cost increases via price rises. Despite this, it is reasonable to conclude that the increased cost base associated with Option 2 will have some negative impact on the sector's competitive positioning with those businesses located in England, such impacts are likely to be relatively marginal in overall terms. For example, the gaps in average farm business income between England and Wales seem to be widening for dairy farms (who are more likely to employ paid labour) in recent years (see Figure 1). However, it is not clear to what extent this trend is caused by the influence of the AWO.

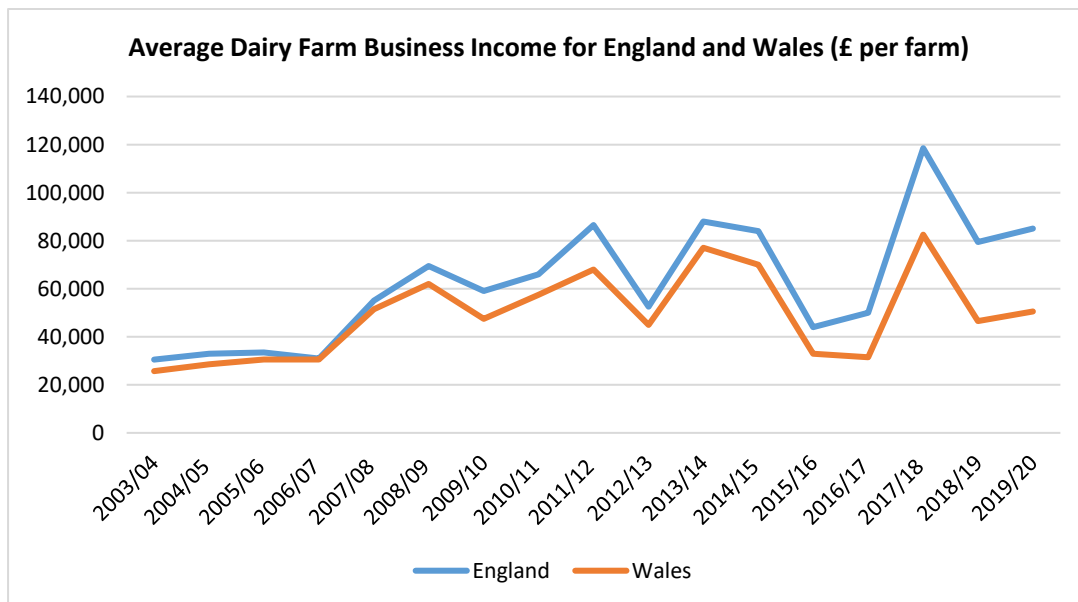


Figure 1: Average Dairy Farm Business Income

Source: Adapted from AHDB data collated from Defra and Welsh Government

(<https://ahdb.org.uk/dairy/farm-business-income>)

Notes to Figure 1: a) Data shown is average farm business income at current prices with figures rounded to £500. All figures are accounting years ending February.

b) Data from 2003-04 to 2008/09 is based upon Standard Gross Margin (GSM) typology

c) 2009/10 data based upon Standard Output (SO) typology.

d) Results derived from 2010 standard output coefficients from 2012/13.

e) 2013/14 onwards are derived using 2010 standard output co-efficients.

114. In general, changes in market conditions have a much larger impact on the agricultural sector than differences in wage rates. In other words, structural changes in the agricultural sector are more likely to be driven by the changes in market conditions while impact of the differences in wages rates are relatively modest.
115. The distribution by grade was based on data from Defra which was not Wales specific and has not been updated since 2012. As such, there are some uncertainties around whether the data from the Defra study is representative of the distribution of farm workers by grade in Wales. Therefore, sensitivity analysis was carried out to test the impact on the results of different distribution of farm worker by grade.
116. Three tests were carried out varying the percentages for Grade 2, Grade 4 or Grade 5 (in current AWO grades which are corresponding to Grades B4, C and D in the proposed AWO 2022) full-time workers (see Table 9). Composition 1 is the baseline; composition 2 increasing Grade 2 (Grade B4 in AWO 2022) workers by 10% and reducing Grade 4 workers (at Grade C in AWO 2022) by 10%; composition 3 increasing Grade 2 (at Grade B4 in AWO 2023) workers by 10% and reducing Grade 5 workers by 10%²⁴.
117. For composition 1, the wage cost of Option 2 is estimated at ££1.4-£3.5 million. For composition 2, the wage cost of Option 2 is estimated £1.4-£3.8 million. For composition 3, the wage cost of Option 2 is estimated £1.1-£3.5 million. Covering all the ranges for the three different compositions, the wage cost of option 2 is estimated between £1.1 million and £3.8 million.
118. In addition, sensitivity analysis was done to show the impact of variations in the proportions of Grade 2 workers of current AWO 2020 that will be classified as Grade B4 in the AWO 2022 (where there is a rise of hourly pay rate). As this is the largest group of agricultural workers, the assumptions made for this group will have the most effect on the results. Four arbitrary percentages (0%, 25%, 50% and 100%) were used as the proportions of this group of workers to demonstrate the range of values of wage cost changes.
119. The assumptions on the proportion of workers who are currently at minimum or below new minimum AWO wage rates will also affect the results. However, as there is no data on the number of workers for each group and the age breakdown within, it is difficult to estimate the effects. The simulated impact was based on the rates for 23 years old and above, which may overestimate the impact. Collection of data on farm workers by grade, by age and by qualification in Wales would help improving accuracy

²⁴ 10% is an arbitrary number. As the actual distribution by grade for Wales is not known, a 10% redistribution between grades was assumed and deemed to be large enough to test sensitivity.

of estimates. However, the cost of this needs to be considered against the use/value of the AWO.

Table 9: Variations of the number of workers by grade

| Composition 1 | | | |
|--------------------|-----------|-----------|--------|
| Grade | Full-time | Part-time | Casual |
| Grade 1 (Grade A4) | 6% | 14% | 39% |
| Grade 2 (Grade B4) | 39% | 63% | 61% |
| Grade 3 (Grade C) | 9% | 7% | |
| Grade 4 (Grade C) | 30% | 11% | |
| Grade 5 (Grade E) | 11% | 3% | |
| Grade 6 (Grade E) | 5% | 1% | |

| Composition 2 | | | |
|--------------------|-----------|-----------|--------|
| Grade | Full-time | Part-time | Casual |
| Grade 1 (Grade A4) | 6% | 14% | 39% |
| Grade 2 (Grade B4) | 49% | 63% | 61% |
| Grade 3 (Grade C) | 9% | 7% | |
| Grade 4 (Grade C) | 20% | 11% | |
| Grade 5 (Grade E) | 11% | 3% | |
| Grade 6 (Grade E) | 5% | 1% | |

| Composition 3 | | | |
|--------------------|-----------|-----------|--------|
| Grade | Full-time | Part-time | Casual |
| Grade 1 (Grade A4) | 6% | 14% | 39% |
| Grade 2 (Grade B4) | 49% | 63% | 61% |
| Grade 3 (Grade C) | 9% | 7% | |
| Grade 4 (Grade C) | 30% | 11% | |
| Grade 5 (Grade E) | 1% | 3% | |
| Grade 6 (Grade E) | 5% | 1% | |

Impact on prices, productivity and profitability

120. As well as impacting on total wage costs and labour inputs, increases to the cost base caused by additional wage costs may be expected to impact on farm businesses (the level of impact depends on the extent of paid labour used on farm) – and three issues profits, prices and productivity are briefly discussed. The extent to which these outcomes will occur in relation to Option 2 depends on a broad range of factors affecting individual farm businesses. Existing literature is unclear on the linkages between minimum wages and these factors, which are therefore assessed qualitatively.

121. In relation to output prices, farms in Wales are generally price-takers with limited power to influence the price of their goods. While such influence will vary according to the type and nature of the product being sold, Welsh farmers are generally operating in a national or international market with relatively limited product differentiation. When combined with current market pressures, this means that passing on cost increases via price rises seems unlikely, although farms in some sectors may be more likely than others to have a marginally greater ability to increase prices.
122. There is limited evidence as to the linkage between minimum wage structure and labour productivity on farms in Wales. The scope available to each farm to exploit productivity improvements will depend to a large extent on issues such as technology adoption, characteristics of the farm and farmer and any scope for economies of scale. Overall, there is insufficient evidence to assess the likely outcomes in terms of productivity implications.
123. In the absence of other adjustments, increased wage costs would be expected to put downward pressure on profits (reflecting the transfers to agricultural workers). In relation to profitability, there is great variation between farms in Wales and the extent of impacts will vary across farms.

Cost: government enforcement

124. It is considered that the enforcement cost related to Option 2 would remain at similar levels with Option 1.

Benefits

Impact on Earnings

125. Under the previously explained assumptions, the proposed changes to minimum wage rates are estimated to raise total wages received (pre-tax) by agricultural workers by £1.4- £3.5 million per annum, assuming full use of the AWO. It should be noted that these benefits are not related to full change between AWO 2020 and the 2022 Order; instead, they relate to the changes in wage rates taking account of forthcoming increases in NMW and NLW from April 2021.
126. This sum can be expected to have further indirect impacts in terms of localised spending power, with a greater concentration within rural areas with a higher proportion of agricultural workers although this also depends on patterns of expenditure that would have taken place from farm businesses (given the transfers).

Impact on poverty including in-work poverty

127. By raising the earnings floor, minimum wages might be expected to raise individual employee income. With all else being equal, some potential impact on in-work poverty is expected, although this could be

offset by a reduction in hours worked/employment and, where relevant, could be dampened by the effects of the tax and benefits system whereby workers would pay more tax on increased pay and/or receive reduced benefits. The effect also depends on business and individual labour decisions.

128. The raising of minimum wage levels will have some impact on in-work poverty by supporting the wages of the lowest paid workers. Although evidence is scarce on the effects of multiple wage floors compared to those of single wage floor, the use of multiple minimal wage structure may accentuate impact on in work poverty, given that more workers will be affected than would be the case for a single wage floor. Putting this into the context of agricultural workers in Wales, of the 15,500 waged workers within the agriculture sector in Wales in 2020, 28% were full-time. The remaining 72% were part-time, seasonal or casual, some of whom may also have other employment in agricultural or other sectors. The probability of in-work poverty is generally higher for part-time, seasonal or casual workers than full-time workers. This relates to around 11,000 farm workers on part-time or seasonal basis.
129. There is an increase of 3-6% in hour rates for Grade C-E workers. This could positively impact some 2,400 people on full-time basis, 900 on part-time basis (see Table 15) in Appendix A.
130. However, total impact on overall in-work poverty and on rural poverty in general, will be limited due to the small number of people involved and the more uncertain impact on household poverty.

Impact on training and skills

131. It is anticipated that the 2022 Order will contribute to developing and retaining skills by providing a clear career structure within the agricultural sector.
132. An early empirical study looking at the relationship between work-related training and the introduction of NMW in Britain (2003)²⁵ found no evidence that the introduction of the minimum wage reduced the training of affected workers, instead, evidence suggested that the NMW may have resulted in increased training both in terms of incidence and intensity.
133. A study on the impacts of minimum wages by Riley and Bondibene (2017)²⁶ used evidence from UK firms and found evidence that higher minimum wages reduce worker turnover. Lower turnover costs (from recruitment and training) would translate into higher productivity per worker; moreover, lower turnover can increase firm incentives to provide general training and raise productivity.

²⁵ Arulampalam, W., et.al. (2003). Work-related Training and the New National Minimum Wage in Britain. Institute for Social and Economic Research (ISER) Working Papers Number 2003-5.

²⁶ Riley, R. and Bondibene (2017). Impacts of minimum wages: review of the international evidence.

134. A most recent study by Bellmann, L. (2017)²⁷ applied difference-in-difference methods to look at the relationship between training and minimum wages. They found that there was a slight reduction in the intensity of training at 'treatment group' (the group that was affected by minimum wages) and that the reduction was mostly driven by employer-financed training. On the worker level, there was a reduction of training for medium and high skilled employees but no significant effects on the training of low-skilled employees.
135. ADAS carried out a study on the use of AWO for Welsh Government in early 2016 which involved a survey of 176 farm businesses that employed labour across different farm size and type. The survey collected responses from 34 AWO users, 109 non-users and 33 who had never heard of the AWO. Among those who were aware of the AWO (143 farmers), a slightly higher percentage (49%) of AWO users than (45%) non-users thought AWO was somewhat useful in staff skill development and performance, although this difference is not statistically significant. Within the non-users of AWO (109 farm businesses), 41% thought AWO would be useful in encouraging staff to seek new skills or qualifications in order to obtain higher grades. It should be noted, however, the percentage of surveyed farm businesses who used AWO was relatively low (20%) which suggests that the actual impact of AWO on training and skills might be relatively limited in scale.
136. A more recent survey of accountancy firms, farm employers and agricultural employees conducted by ADAS indicates that the use of AWO has had limited impact on training, skill development, staff recruitment and staff retention. However, the survey results should be interpreted with caution due to the small sample size.
137. Overall, there is limited evidence that the increase to agricultural minimum wage levels in Wales will incentivise skills acquisition within the agricultural sector. The effect of AWO on skill development and training within the agricultural sector in Wales may be further limited due to the low level of use of AWO.
138. As the minimum wage rates set out in the 2022 Order are higher than NMW/NLW for more skilled workers (Grade B4, Grade C-E) and it maintains a privilege rate not universally enjoyed by other sectors, this should help to retain the employment and skills within the agricultural industry. However, the potential increase in labour cost may to some extent negatively affect the training supported by agricultural employers.

²⁷ Bellmann, L. (2017). Training and minimum wages: first evidence from the introduction of the minimum wage in Germany. *IZA Journal of Labor Economics* volume 6, Article number: 8 (2017).

Sector impacts

Impact on local government

139. No evidence of significant differential impact.

Impact on voluntary sector

140. No evidence of significant differential impact.

Impact on small businesses

141. The increase in costs associated with pay and other amended terms and conditions will have an impact on farm businesses, including small businesses in the sector if they employ farm workers. The minimum agricultural wage rates have been updated annually in AWO since 2016. It is important to acknowledge though that these rates only set statutory minimum wage levels and that employers may pay higher wages to workers to reflect their skills and the level of responsibilities taken on farm. In addition, not all the farm businesses that employ paid labour are aware of or make reference to AWO. According to ADAS's recent small scale survey of accountants, agricultural employers and employees, only a small proportion of agricultural employers are using AWO. Some agricultural businesses and workers are not aware of the existence of AWO and some farm businesses do not use AWO as they employ workers who are registered as self-employed or contractors.

142. According to the Office for National Statistics (see

143.

144. Table 10), there are 14,800 agricultural, forestry and fishing businesses in Wales and 19.6% are employer businesses in 2020. The figures for England were 103,520 and 37.6%. The data suggests that agriculture in Wales is dominated by small businesses (16% being businesses that employ less than five employees and 3.6% being businesses with five and more employees) and the majority of businesses do not employ labour (73%). For smaller business with paid labour, the increases in labour costs as a result of increases in AMW may have a negative impact on business profitability.

145. ADAS carried out a study on the use of AWO for Welsh Government in early 2016 which involved a survey of 176 farm businesses that employed labour across different farm size and type. The study suggested that the average labour cost (for paid labour) was around 18% of the total inputs, but no statistically significant differences were found between different farm sizes. This suggests that in terms of the cost structure (cost of paid labour as a percentage of total costs), it is similar across all farm sizes and there is no indication that smaller businesses would be affected disproportionately due to increases in the cost of paid labour.

Table 10: Number of agricultural businesses by size band in England and Wales (2020)

| Agriculture, Forestry and Fishing | England | | Wales | |
|-----------------------------------|-------------------|-------|-------------------|-------|
| | No. of Businesses | % | No. of Businesses | % |
| Number of businesses | 103,520 | 100.0 | 14,800 | 100.0 |
| Number of employees | 38,940 | 37.6 | 2,905 | 19.6 |
| | | | | |
| With no employees (unregistered)* | 4,660 | 4.5 | 1,070 | 7.2 |
| With no employees (registered)* | 59,920 | 57.9 | 10,825 | 73.1 |
| 1 | 13,100 | 12.7 | 1,155 | 7.8 |
| 2-4 | 17,370 | 16.8 | 1,220 | 8.2 |
| 5-9 | 5,360 | 5.2 | 385 | 2.6 |
| 10-19 | 1,820 | 1.8 | 115 | 0.8 |
| 20-49 | 830 | 0.8 | 20 | 0.1 |
| 50-99 | 270 | 0.3 | 10 | 0.1 |
| 100-199 | 100 | 0.1 | 0 | 0.0 |
| 200-249 | 20 | 0.0 | 0 | 0.0 |
| 250-499 | 40 | 0.0 | 0 | 0.0 |
| 500 or more | 30 | 0.0 | 0 | 0.0 |

Source: ONS (2020) Business population estimates for the UK and regions 2020, Table 20 and Table 21. <https://www.gov.uk/government/statistics/business-population-estimates-2020>

Note: * Businesses with no employees can either be 'registered' for VAT or PAYE or are 'unregistered'.

146. The majority of farms in Wales are small businesses and the policy has been developed within this context. As a result, the impact of Option 2 is not expected to impose any additional or disproportionate impact on small businesses. The larger farms, dairy farms and horticultural businesses tend to use more paid labour than the smaller businesses or other farm types. These farms may face more pressure from labour cost increases.

147. However, ADAS' recent study on the use of AWO suggests that some of the sectors, dairy and poultry in particular, are paying market rate to attract and retain skilled workers. These rates are well above the agricultural wages order pay rates. Therefore, the increases in AWO grades would not have a large impact on labour costs for these sectors.

Impact by sector

148. The impact on different sectors may vary depending on the composition of cost base of the farm businesses. The most recent Farm

Business Survey data (2018/2019)²⁸ for Wales suggests that the costs for casual and regular labour accounted for 4-6% of their agricultural cost base (see Table 11).

Table 11 : Labour cost as a percentage of total input for farm businesses in Wales by sector (2017-2018) and (2018-2019)

| Farm type | Labour cost (£), casual and regular labour | | Agricultural cost (£) | | Share of labour cost (%) | |
|--------------------------------|--|---------|-----------------------|---------|--------------------------|---------|
| | 2017-18 | 2018-19 | 2017-18 | 2018-19 | 2017-18 | 2018-19 |
| LFA Cattle and Sheep Farms | 3,400 | 3,300 | 82,000 | 89,100 | 4% | 4% |
| Lowland Cattle and Sheep Farms | 3,000 | 2,700 | 77,500 | 77,000 | 4% | 4% |
| Dairy | 18,600 | 23,700 | 312,000 | 372,800 | 6% | 6% |
| All Farm Types | 5,900 | 6,600 | 118,100 | 134,100 | 5% | 5% |

Source: Calculated from Farm Business Survey (FBS) data for Wales (2018/2019).

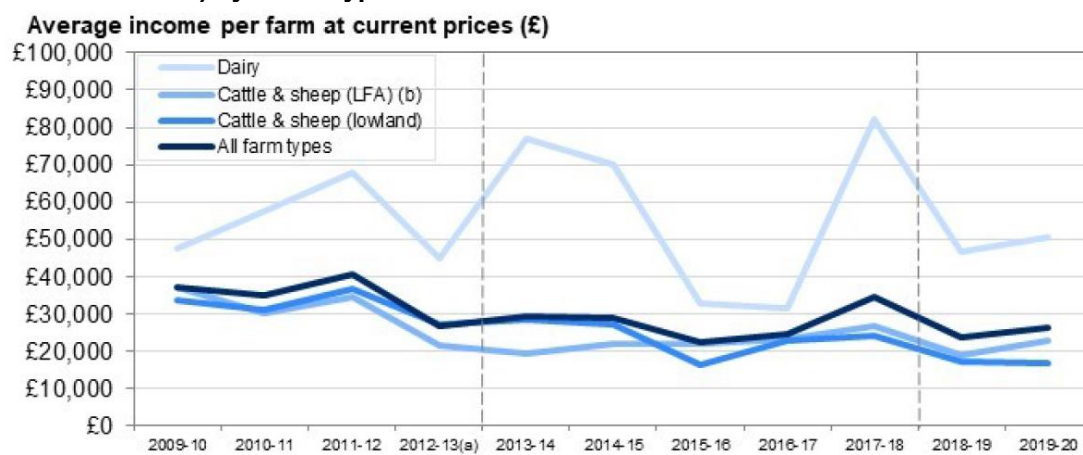
<https://gov.wales/farm-incomes-april-2018-march-2019>

149. There is limited evidence as to labour productivity on farms in Wales. The scope available to each farm to exploit productivity improvements will depend to a large extent on issues such as technology adoption, characteristics of the farm and farmer and any scope for economies of scale. Overall, there is insufficient evidence to assess the likely outcomes in terms of productivity improvements.
150. In relation to profitability, there is notable variation between farms in Wales. Information on farm business income for 2018-19 suggests that there is variation across and within the major farm types. For dairy farms, the average farm business income was around £46,600, whilst cattle and sheep farms in the Less Favoured Area (LFA) was around £18,900, and lowland cattle and sheep farms around £17,100²⁹.
151. Time series of farm business income data (see Figure 2) suggests that business profitability across the main farm types stays at a low level, (particularly for cattle and sheep farms) and that there is also variation between years and between farm types. For example, the farm business income for the dairy sector has fluctuated most dramatically (large decline in 2015/16 and 2016/17, bounced back in 2017/18 fell substantially again in 2018/19) in recent years and income for LFA cattle and sheep farms have been relatively stable but at low levels.

²⁸ Data for 2019/2021 is not yet available. Next scheduled release date is 25 March 2021. <https://gov.wales/farm-incomes-april-2019-march-2020-announcement>

²⁹ Source: Welsh Government 2019. Statistics on Farm Incomes. Available at: <https://gov.wales/farm-incomes-april-2018-march-2019>. There was a significant decrease (-33% from the previous year) in farm business income across all farms in the year 2018-19.

Figure 2: Farm Business Income (in real terms at 2019 /20prices) in Recent Years (2009/10-2019/20) by Farm Type

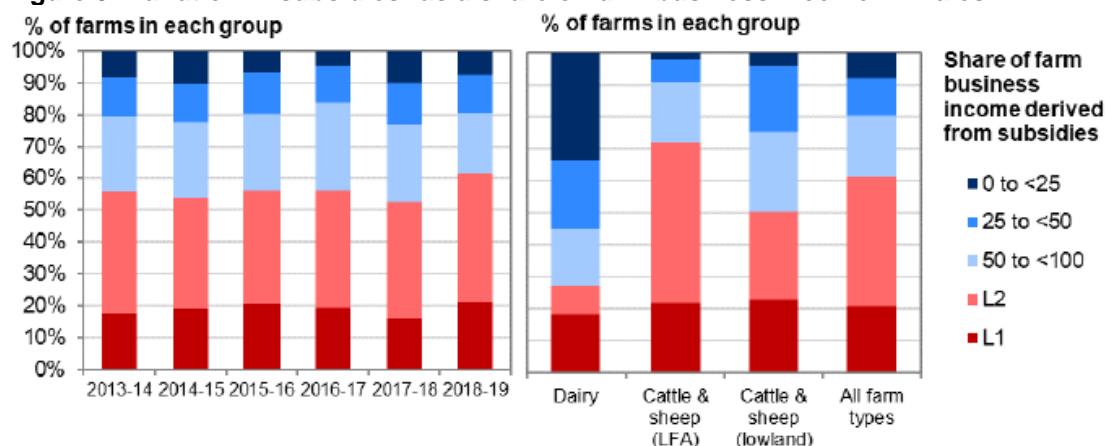


Source: Based on Statistics on Farm Incomes (2019-2020). Available at: <https://gov.wales/sites/default/files/statistics-and-research/2021-03/farm-incomes-april-2019-march-2020-914.pdf>

152. It should be noted however, the average profitability data of farm businesses should be interpreted in the context that the industry is currently heavily relying on public subsidies. According to the Farm Business Survey, over 50% of all farms either made a loss or would have done so without subsidy in the past few years since 2013-14 and this percentage increased to over 60% in year 2018-19 (see Figure 3). The level of dependence varies between farm types. In 2018-19, around 70% of cattle and sheep (LFA) farms either made a loss or would have done so without subsidy, compared with around 50% of lowland cattle and sheep farms and around 25% of dairy farms.

153. As a wider context, this dependence on subsidy can leave farms vulnerable to policy changes and market conditions especially after Brexit. Increases in labour cost would add more pressure to farm business profitability particularly for those farms that are making a loss with and without subsidies.

Figure 3: Variation in subsidies* as a share of farm business income in Wales



Source: Farm Business Survey Quoted in Statistics Release on Farm Incomes in Wales 2018/19.

Note *: subsidies include agri-environment payments and single farm payments; L1 - Including subsidy, the farm made a loss; L2 - Without subsidy, farm would have made a loss.

154. Several studies (AHDB 2017; Dwyer 2018; House of Commons Welsh Affairs Committee, 2018)³⁰ on the impacts of Brexit on agriculture in Wales suggest that many parts of the agricultural supply chain are heavily reliant on migrant workers from the EU. Often, the demand for labour in agriculture and the associated supply chain is on a seasonal basis as opposed to year-round employment. If there is no longer free movement of workers between the UK and the rest of the EU post-Brexit, availability and the cost of labour will be negatively impacted. The most vulnerable sectors include horticultural sector and wider agri-food sectors such as abattoirs, veterinary services, meat cutting, dairy processing plants and food packing.

155. In general terms, increases to the agricultural cost base will impact on farm income and profitability, but the extent of this cannot be accurately forecast. However, it is reasonable to assume that the 2022 Order may add further pressure on the cost base increases when compared to baseline, particularly under the multiple impacts from the Covid-19 pandemic, EU exit and the phase out of Direct Payments.

8. Competition Assessment

156. See Appendix C.

9. Conclusion

157. Potential costs and benefits for both policy options are considered and compared. However, significant limitations exist across data and methodology. Specifically, disaggregated up to date data for Wales are not always available and few methodologies exist to demonstrate the relationship between employment, business performance of the agricultural sector and minimum wages. As a result, some impacts cannot be quantified with any degree of accuracy. The quantification was focused on the impact on wage costs/earnings for Grade 1-6 agricultural workers within current AWO 2020 grading system (equivalents of Grade B4, C-E in AWO 2022) where disaggregated data are most available. However, the distribution by grade of workers was based on the Defra study in 2012 which was not Wales specific. The impact on other categories of workers or the impact of changes in other allowances generally affect very small groups of workers and the impacts are expected to be minimal. Due to lack of detailed data on these groups, the impacts of changes related to them were not estimated. However, the administrative costs to the farmers

³⁰ AHDB, 2017. Brexit Scenarios: an impact assessment:

https://ahdb.org.uk/documents/Horizon_Brexit_Analysis_20September2016.pdf

Dwyer, J. 2018. The Implications of Brexit for Agriculture, Rural Areas and Land Use in Wales. Report to Public Policy Institute for Wales.

are estimated for their time to familiarise themselves with and make adjustments in accordance to the 2022 Order. It should also be noted that the two policy scenarios are not the full difference between the 2022 Order and the 2020 Order; the differences in labour minimum wage rates also take account of the changes in NMW and NLW from April 2021.

158. In terms of the relative increases within the pay structure, the hourly wage rates for initial grades (Grade A and Apprentice grades) are set at the NMW/NLW level from April 2021. Grade B4, Grade C-E in the 2022 Order will have an increase between 3-6% from the AWO 2020 rates or above the NMW/NLW rates from April 2021. There is a provision of protection of pay for workers that will be assigned to a lower grade or lower rate of pay under the proposed new grading structure in AWO 2022.
159. In summary, potential costs that are additional for Option 2 are summarised as follows:

Employment: The proposed increases may lead to reduction of about 2-66 or fewer agricultural jobs in Wales. The overall impact on employment is negligible. Reductions in hours worked may take place, but cannot be quantified.

Earnings: The total transfer could be raised by £1.4 -3.5 million per annum. This is the estimate for additional earnings under the 2022 Order also taking account of changes in NMW/NLW from April 2021.

Prices, productivity and profitability: All else given, this is likely to put downward pressure on farm business profits, but with an unclear effect on productivity. Output price rises enabling margins to be maintained seem unlikely given that the farm businesses are generally price-takers and there is limited pricing power of farm businesses. In terms changes in agricultural outputs, they are more directly affected by broader agricultural market conditions.

Administrative costs: there will be a cost to farm businesses for adjusting to the requirements of the 2022 Order. It is estimated that this will cost farming businesses £59k-£71k.

Government enforcement: It is likely that administrative costs accruing to the Welsh Government would be broadly similar under both options as the Welsh Government is already enforcing the AWO regime that has been preserved under the 2014 Act, assuming no changes in the volume of case work to investigate each year.

160. Potential benefits that are additional to Option 2 include:

Earnings: The proposed minimum wage rate changes are estimated to transfer £1.4-£3.5 million per annum (pre-tax) to agricultural workers (from employers) (excluding the effects of non-wage labour costs) in terms of their total gross income, with potential impacts throughout the wages

distribution associated with the differential minimum wage rates for the different grades.

In-work poverty: Option 2 would be expected to reduce in-work poverty to some extent (to the extent that the higher hourly wage rates are not offset by reduced hours/employment), with a geographic focus on areas with a higher concentration of paid agricultural workers relevant to AWO. However, this effect varies across businesses and individual labours depending on individual circumstances and decisions.

Training and skills: Uprating minimum wages throughout the grade structure and for all categories of workers, including apprentices, will provide greater incentives for workers to acquire skills and progress through the grade system. However, for new entrants of younger agricultural workers (Grade A and Apprentices under 19 years old), they are no longer offered a preferential minimum wage rate above the NMW/NLW rates. This may have some negative impact on the sector to become a viable and appealing career choice particularly for young workers. Compared to other industries, as the AWO 2022 minimum wage rates for skilled workers at higher grades (Grade B4, Grade C-E) are generally higher than NMW/NLW, it maintains a privilege rate that is not universally enjoyed by other sectors than agriculture. This should help to retain the employment and skills within the agricultural industry, particularly more so for skilled workers. It is reasonable to conclude that Option 2 could be more likely to support up skilling within the sector, as well as potentially having a positive impact on efficiency. However, this up skilling benefit related to the grade structure depends on the ability of the businesses to pay for further training after the increase in labour costs.

161. In conclusion, Option 2 provides an established and previously accepted approach to the setting of minimum wages, changes to the pay structure and other aspects of the employment relationship. With wage rates increasing and linked to NMW/NLW (for Grade A and Apprentice grades), the 2022 Order will benefit the waged workforce in terms of increasing earnings and supporting further up skilling within the industry. It should be noted that the estimates on costs and benefits of Option 2 were based on the assumption that all paid agricultural workers and agricultural employers who employ paid labour will use AWO. In reality, only a small percentage of agricultural employers and workers are using AWO and will be impacted. Therefore, the actual impact of the changes in AWO 2022 may be smaller than estimated.

APPENDIX A: Supporting Calculations for Cost and Benefit Estimates

1. Employment Data

Table 12: Persons engaged in work on agricultural holdings, Wales (2020)

| Type of Labour | | Number of people |
|---|----------------------------|------------------|
| Total farmers, partners, directors and spouses: (a) | | |
| | Full-time | 18,700 |
| | Part-time (b) | 18,600 |
| | Total | 39,300 |
| Farm workers: | | |
| | Regular full-time (c) | 4,400* |
| | Regular part-time (b) (c) | 4,200* |
| | Seasonal or casual workers | 6,900* |
| | Total farm workers | 15,500 |
| Total labour force | | 52,900 |

Source: Welsh Government, June 2020 Survey of Agriculture and Horticulture: Results for Wales. <https://gov.wales/sites/default/files/statistics-and-research/2020-12/survey-agriculture-and-horticulture-june-2020-932.pdf>

Note:

(a) Figures are for main and minor holdings.

(b) Part-time defined as less than 39 hours per week.

(c) Includes salaried managers.

* Calculated based on percentage composition of different types of workers in 2016.

2. Earnings

Table 13: Persons engaged in work on agricultural holdings, Wales (2020)

| | Type of labour | No. of people | % composition |
|--------------------------|---------------------------------|---------------|---------------|
| Full-time | Regular full-time farm workers* | 4,400 | 28% |
| | | | |
| Part-time | Regular part-time farm workers | 4,200 | 27% |
| | | | |
| Casual | Seasonal or casual workers | 6,900 | 45% |
| | | | |
| Total waged labour force | | 15,500 | 100% |

Note:

Source: Figures for farm workers by type are from Welsh Government, Welsh Agricultural Statistics are not available for 2020 but estimated base on 2016 figures on composition by type [online] <https://gov.wales/welsh-agricultural-statistics-2016>

Number of workers in each category are calculated based on total no. of workers in 2020 and composition by type of workers in 2016.

Table 14: Profile of workers at each AWO grade (average %), UK (2007-2010)

| Grade | Full-time | Part-time (a) | Casual |
|---------|-----------|---------------|--------|
| Grade 1 | 6% | 14% | 39% |
| Grade 2 | 39% | 63% | 61% |
| Grade 3 | 9% | 7% | |
| Grade 4 | 30% | 11% | |
| Grade 5 | 11% | 3% | |
| Grade 6 | 5% | 1% | |

Source: Defra Farm Labour and Wage Statistics, 2012. [online] <http://webarchive.nationalarchives.gov.uk/20130123162956/http://www.defra.gov.uk/statistics/files/defra-stats-foodfarm-farmmanage-earnings-labour2012-120627.pdf> , Table 12 on p.13.

Note: (a) Totals do not sum to 100% due to rounding.

Table 15 combines data from Table 13 and Table 14 to provide rough estimates of the number of full time, part-time and casual staff within each grade in Wales using employment data for year 2020.

Table 15: Number of workers at each AWO grade, estimated for Wales 2020(a)

| Grade | Full-time | Part-time | Casual |
|--------------|--------------|--------------|--------------|
| Grade 1 | 264 | 588 | 2,691 |
| Grade 2 | 1,716 | 2,646 | 4,209 |
| Grade 3 | 396 | 294 | |
| Grade 4 | 1,320 | 462 | |
| Grade 5 | 484 | 126 | |
| Grade 6 | 220 | 42 | |
| Total | 4,400 | 4,158 | 6,900 |

Note: (a) Totals do not add up to 15,500 due to rounding in Table 14.

Table 16 provides Defra's estimates of the average hours worked by full time, part-time and casual staff.

Table 16: Hours worked by worker type per week, UK, 2003 to 2010 average

| Worker type | Total hours worked | Basic hours | Overtime hours |
|---------------|--------------------|-------------|----------------|
| full time (a) | 42.5 | 36.3 | 6.2 |
| part time (b) | 17.2 | 17.2 | 0 |
| Casual (c) | 29.4 | 26.5 | 2.9 |

Source: (a) and (b) Total no. of hours worked are based on estimates from Brookdale Consulting Report to the Welsh Government (2018). Agriculture in Wales: Welsh Labour Market Information. Basic and overtime hours are estimated based on total no. of hours and

split between basic and overtime hours from the Defra (2012) Farm Labour and Wage Statistics..

(c) Defra Farm Labour and Wage Statistics, 2012. [online]

<http://webarchive.nationalarchives.gov.uk/20130123162956/http://www.defra.gov.uk/statistics/files/defra-stats-foodfarm-farmmanage-earnings-labour2012-120627.pdf>, Table 10 on p.12.

Note: (b) Assumed that part-time workers do not work overtime.

Table 17 summarises the number of weeks that each type of workers worked per year.

Table 17: Number of weeks worked per year by different type of employment

| Worker type | No. of weeks worked at Basic hours | No. of weeks worked at overtime hours |
|---------------|------------------------------------|---------------------------------------|
| full time | 52 | 47.6 |
| part time (a) | 52 | 49.2 |
| Casual | 10 | 10 |

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

<http://webarchive.nationalarchives.gov.uk/20130123162956/http://www.defra.gov.uk/statistics/files/defra-stats-foodfarm-farmmanage-earnings-labour2012-120627.pdf>, Table 39 on p.36.

Table 18 provides the agricultural minimum wages set in the AWO 2020 and 2022 for the agricultural industry and the increases in wage rates by grade for both basic and overtime pay.

Table 18: AWO hourly pay rates, baseline and 2022

| Grade or category of worker | Basic pay 2022 | Baseline Basic pay | Basic pay increase | Overtime pay increase* |
|---|----------------|--------------------|--------------------|------------------------|
| Grade 1 work (aged 25+) (Grade A4, 23+) | £8.91** | £8.91** | £0.00 | £0.00 |
| Grade 2 worker (Grade B4, 23+) | £9.19** | £8.91** | £0.28 | £0.42 |
| Grade 3 worker (Grade C) | £9.47 | £8.86 | £0.61 | £0.92 |
| Grade 4 worker (Grade C) | £9.47*** | £9.53*** | -£0*** | -£0*** |
| Grade 5 worker (Grade D) | £10.39 | £10.06 | £0.33 | £0.50 |
| Grade 6 worker (Grade E) | £11.40 | £10.83 | £0.57 | £0.86 |

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

Note: * Overtime pay levels are set at 1.5 times of basic rates.

** The rates set at NLW levels from April 2021.

***Subject to protection of pay

Table 19 combines data in Table 13, Table 15-Table 18 to provide a broad estimate of the additional labour costs per year for Option 2 relative to baseline in Wales across all grades for full time, part time and casual workers.

The calculations for the additional wages costs were based on the number of workers in each grade by type (full time, part time and casual) multiplied by the increase per hour for the respective grades, the number of hours worked per week and the number of weeks worked per year. Given the uncertainty in terms of how many Grade 2 workers of current AWO 2020 will be classified as Grade B4 in the AWO 2022 (where there is a rise of hourly pay rate), four arbitrary percentages (0%, 25%, 50% and 100%) were used as the proportions of this group of works to demonstrate the range of values of wage cost changes. The results are presented in Table 19 to Table 22.

Table 19: Additional labour costs per year for Option 2 (Grade B4 accounting for 0% of Grade B)

| Grade | Full-time (£) | | Part-time(£) | | Casual (£) | | Total (£) |
|-------------------|-------------------|-----------------|-----------------|-----------|------------|-----------|-------------------|
| | Basic | Overtime | Basic | Overtime | Basic | Overtime | |
| 1 (Grade A4, 23+) | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| 2 (Grade B4, 23+) | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| 3 (Grade C) | £459,737 | £106,934 | £160,402 | £0 | £0 | £0 | £727,072 |
| 4 (Grade C) | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| 5 (Grade D) | £303,979 | £70,705 | £37,189 | £0 | £0 | £0 | £411,873 |
| 6 (Grade E) | £238,661 | £55,512 | £21,412 | £0 | £0 | £0 | £315,585 |
| Total (£) | £1,002,377 | £233,151 | £219,003 | £0 | £0 | £0 | £1,454,531 |

Table 20: Additional labour costs per year for Option 2 (Grade B4 accounting for 25% of Grade B)

| Grade | Full-time (£) | | Part-time(£) | | Casual (£) | | Total (£) |
|------------------|-------------------|-----------------|-----------------|-----------|----------------|----------------|-------------------|
| | Basic | Overtime | Basic | Overtime | Basic | Overtime | |
| 1(Grade A4, 23+) | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| 2(Grade B4, 23+) | £228,612 | £53,175 | £165,661 | £0 | £78,077 | £12,816 | £538,341 |
| 3 (Grade C) | £422,054 | £98,169 | £147,254 | £0 | £0 | £0 | £667,476 |
| 4 (Grade C) | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| 5 (Grade D) | £303,979 | £70,705 | £37,189 | £0 | £0 | £0 | £411,873 |
| 6 (Grade E) | £238,661 | £55,512 | £21,412 | £0 | £0 | £0 | £315,585 |
| Total (£) | £1,193,306 | £277,560 | £371,516 | £0 | £78,077 | £12,816 | £1,933,276 |

Table 21: Additional labour costs per year for Option 2 (Grade B4 accounting for 50% of Grade B)

| Grade | Full-time (£) | | Part-time(£) | | Casual (£) | | Total (£) |
|------------------|-------------------|-----------------|-----------------|-----------|-----------------|----------------|-------------------|
| | Basic | Overtime | Basic | Overtime | Basic | Overtime | |
| 1(Grade A4, 23+) | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| 2(Grade B4, 23+) | £457,225 | £106,349 | £331,322 | £0 | £156,154 | £25,633 | £1,076,682 |
| 3 (Grade C) | £422,054 | £98,169 | £147,254 | £0 | £0 | £0 | £667,476 |
| 4 (Grade C) | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| 5 (Grade D) | £303,979 | £70,705 | £37,189 | £0 | £0 | £0 | £411,873 |
| 6 (Grade E) | £238,661 | £55,512 | £21,412 | £0 | £0 | £0 | £315,585 |
| Total (£) | £1,421,919 | £330,735 | £537,177 | £0 | £156,154 | £25,633 | £2,471,617 |

Table 22: Additional labour costs per year for Option 2 (Grade B4 accounting for 100% of Grade B)

| Grade | Full-time (£) | | Part-time(£) | | Casual (£) | | Total (£) |
|------------------|-------------------|-----------------|-----------------|-----------|-----------------|----------------|-------------------|
| | Basic | Overtime | Basic | Overtime | Basic | Overtime | |
| 1(Grade A4, 23+) | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| 2(Grade B4, 23+) | £914,450 | £212,699 | £662,643 | £0 | £312,308 | £51,266 | £2,153,365 |
| 3 (Grade C) | £422,054 | £98,169 | £147,254 | £0 | £0 | £0 | £667,476 |
| 4 (Grade C) | £0 | £0 | £0 | £0 | £0 | £0 | £0 |
| 5 (Grade D) | £303,979 | £70,705 | £37,189 | £0 | £0 | £0 | £411,873 |
| 6 (Grade E) | £238,661 | £55,512 | £21,412 | £0 | £0 | £0 | £315,585 |
| Total (£) | £1,879,144 | £437,085 | £868,498 | £0 | £312,308 | £51,266 | £3,548,300 |

APPENDIX B: Calculations of Employment Effect

Wage elasticity of supply is the grade of influence on the supply of labour caused by a change of wages.

The formula for wage elasticity is: Wage elasticity = change of supply of labour in percentage / change of wage in percentage.

Therefore:

- Change of supply of labour in percentage = wage elasticity * change of wage in percentage;
- Absolute change in labour supply = number of workers * change of supply of labour in percentage (i.e. wage elasticity * change of wage in percentage)

Table 23: Change in labour supply assuming wage elasticity=-0.19

| | No. of workers (a) | Wage elasticity (b) | Change of wage in % (c) | Absolute changes in no. of workers (d) (d=a*b*c) |
|------------------|--------------------|---------------------|-------------------------|--|
| 1(Grade A4, 23+) | 3,543 | -0.19 | 0.00% | 0 |
| 2(Grade B4, 23+) | 8,571 | -0.19 | 0.00%-3.00% | -51~0 |
| 3 (Grade C) | 690 | -0.19 | 6.00% | -8 |
| 4 (Grade C) | 1,782 | -0.19 | 0.00% | 0 |
| 5 (Grade D) | 610 | -0.19 | 3.00% | -4 |
| 6 (Grade E) | 262 | -0.19 | 5.00% | -3 |
| Total | 15,500 | - | - | -15~-66 |

Table 24: Change in labour supply assuming wage elasticity=-0.03

| | No. of workers (a) | Wage elasticity (b) | Change of wage in % (c) | Absolute changes in no. of workers (d) (d=a*b*c) |
|------------------|--------------------|---------------------|-------------------------|--|
| 1(Grade A4, 23+) | 3,543 | -0.03 | 0.00% | 0 |
| 2(Grade B4, 23+) | 8,571 | -0.03 | 0.00%-3.00% | -8~0 |
| 3 (Grade C) | 690 | -0.03 | 6.00% | -1 |
| 4 (Grade C) | 1,782 | -0.03 | 0.00% | 0 |
| 5 (Grade D) | 610 | -0.03 | 3.00% | -1 |
| 6 (Grade E) | 262 | -0.03 | 5.00% | 0 |
| Total | 15,500 | - | - | -2~-10 |

APPENDIX C: The Competition Assessment

Answers to the competition filter test

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

Appendix D - The Panel's consultation documents

<https://gov.wales/agricultural-wages-order-2021-2022.html>

[Agricultural Wages Order 2021 to 2022 \[HTML\] | GOV.WALES](#)