Explanatory Memorandum to the Agricultural Wages (Wales) Order 2023

This Explanatory Memorandum has been prepared by the 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 2023. I am satisfied the benefits justify the likely costs.

Lesley Griffiths MS
Minister for Rural Affairs and North Wales, and Trefnydd
7 March 2023

Description

1. The Agricultural Wages (Wales) Order 2023 ("the 2023 Order") makes provision about the minimum rates of remuneration and other terms and conditions of employment for agricultural workers. The 2023 Order revokes and replaces the Agricultural Wages (No 2) (Wales) Order 2022 ("the 2022(2) Order") with changes which includes increases to the minimum hourly rates of pay for agricultural workers.

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 reviewed the provisions of the 2022(2) Order and proposed a number of amendments. They consulted on the proposed changes between 22 September and 20 October 2022 and subsequently prepared a draft Order for Welsh Ministers consideration. The draft Wages Order was submitted to the Welsh Ministers for approval on 21 November 2022. The Panel recommended increases to minimum hourly rates for all grades and categories of agricultural worker. Increases to all allowances in line with the percentage rise of the National Living Wage is also recommended.

Legislative background

5. The 2023 Order is made pursuant to sections 3, 4(1) and 17 of the 2014 Act.

6. 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.

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

8. Section 4(1) stipulates the Welsh Ministers may, after receiving a draft agricultural wages order from the Panel, approve and make the order.

9. 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.

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

Purpose and intended effect of the legislation

11. 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. Provisions in the 2023 Order will continue to reward qualifications and/or experience in agriculture which includes pay differentials based on the level of skill required at each grade. This provides an incentive for skills development within the sector and supports the existence of a well-trained and skilled workforce which in turn can increase productivity and efficiency.

12. The 2023 Order will continue to provide that any agricultural worker who would have suffered 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 grading structure introduced in the 2022 Order must have their pay frozen at the rate of pay the day before the 2022 Order came into force until the minimum rate of pay applicable to their grade under the new grading structure reaches or exceeds their current rate of pay.

13. The 2023 Order will be taken forward within the context of the Welsh Government’s wider Tackling Poverty agenda, assisting rural economies to grow and thrive, further contributing to the wider Welsh economy.

14. Ensuring wage progression for agricultural workers improves their job prospects for the future and supports rural communities through effects on household incomes.

15. 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.

Consultation

16. The Panel published a consultation to seek views on the proposals for the 2023 Order including changes to minimum wage rates and allowances and other conditions of employment. The consultation ran from 2 September to 20 October 2022. The proposals were emailed to an extensive list of stakeholders and were made available on the Panel's web platform.

17. 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.

18. There were two responses in total – one stating the Agricultural Minimum Wage was not necessary when there is already National Minimum Wage / National Living Wage provisions and the other stating the levels should be set equivalent to the Real Living Wage. The Panel met to discuss the responses to the consultation and agreed no changes needed to be made to the proposals.

Part 2 - Regulatory Impact Assessment (RIA) of the Agricultural Wages (Wales) Order 2023

Proposed changes to the 2022(2) Order for the 2023 Order

Minimum Wage Rates

19. The Panel propose to change the minimum hourly rates of pay as follows in the table below.

20. The proposed minimum hourly rates for Grade B4 to E workers are 3%-28% above national minimum wage rates from April 2023.

21. Grades A1, A2, B1, B2 and apprentices will be paid at National Minimum Wage / National Living Wage (NMW/NLW) rates.

Category of worker	**Proposed rates in 2023 Order (£ /hr)**	**Current rate of pay (£ per hour)**	**NMW / NLW April 2023 (£ per hour)**	**% above NMW / NLW**
A1 – Agricultural Development Worker (16-17 years)	£5.28	£4.81	£5.28	Same
A2 – Agricultural Development Worker (18-20 years)	£7.49	£6.83	£7.49	Same
A3 – Agricultural Development Worker (21-22 years)	£10.23	£9.18	£10.18	+0.5%
A4 – Agricultural Development Worker (23 years+)	£10.47	£9.50	£10.42	+0.5%
B1 – Agricultural Worker (16-17 years)	£5.28	£4.81	£5.28	Same
B2 – Agricultural Worker (18-20 years)	£7.49	£6.83	£7.49	Same
B3 – Agricultural Worker (21-22 years)	£10.23	£9.18	£10.18	+0.5%
B4 – Agricultural Worker (23 years+)	£10.74	£9.79	£10.42	+3.1%
C – Agricultural Advanced Worker	£11.07	£10.08	£10.42	+6.2%
D – Senior Agricultural Worker	£12.14	£11.06	£10.42	+16.5%
E – Agricultural Manager	£13.32	£12.13	£10.42	+27.8%

Apprentice Year/age groups	**Proposed rates in 2023 Order**	**NMW / NLW April 2023**	**% above NMW / NLW**

	(£ per hour)	(£ per hour)	
Apprentice Year 1	£5.28	£5.28	Same
Apprentice Year 2 and beyond (16-17 years)	£5.28	£5.28	Same
Apprentice Year 2 and beyond (18-20 years)	£7.49	£7.49	Same
Apprentice Year 2 and beyond (21-22 years)	£10.18	£10.18	Same
Apprentice Year 2 and beyond (23 years +)	£10.42	£10.42	Same

22. The rates for the dog allowance, night time work and birth / adoption grant will be increased in line with the percentage increase of the NLW 2023.

Allowances	**Current Rate**	**Proposed Rate**
Dog Allowance	£8.53	£9.36 (Current rate + % increase of NLW for 2023)
Night Time Work Allowance	£1.62 per hour	£1.78 (Current rate + % increase of NLW for 2023)
Birth / Adoption Grant	£67.09 per child	£73.60 (Current rate + % increase of NLW for 2023)

23. Other proposed changes[1] include:

Accommodation offset allowance

Currently, where a worker is provided with a house by the employer, which the agricultural worker is required to live in for the proper or better performance of their duties, the employer may deduct no more than £1.50 per week from the agricultural worker's minimum wage.

Where the employer provides other accommodation, the employer may not deduct more than £4.82 per day, from the agricultural worker's

[1] Source: The consultation paper of the AWO 2023. https://www.gov.wales/agricultural-wages-order-2023-html

minimum wage, if the worker has worked for a minimum of 15 hours for their employer in that week. No deductions should be made if the employee works under the 15-hour threshold.

The Panel has not proposed an increase to these rates since its establishment. Having considered the economic conditions within the sector at this time the Panel have proposed these are increased in line with the percentage increase of the National Living Wage (NLW) bringing the rates for accommodation offset closer to the permitted deduction under the National Minimum Wage legislation.

Article 2 Contract of service

Article 2 defines terms used within the proposed AWO.

The Panel proposes the term 'contract of service' is amended to remove the words 'of service.' The rationale behind this amendment is to ensure inclusion of agency workers and workers employed by gang masters who may not be engaged under a contract of service directly with the employer, but under some other form of contract for services.

This change would apply to the definitions for 'Basic Hours', 'Guaranteed Overtime', 'Working Time' *(Article 2)*, 'Employment Ending During Sickness Absence' *(Article 25)*, 'Holiday Pay' *(Article 36)* and 'Public Holidays and Bank Holidays' *(Article 37)*.'

Interpretation of employment

In accordance with the proposed amendment to the term 'contract of service' outlined above, the Panel proposes to amend the definition of employment under *Article 2* of the proposed AWO as follows:
"employment ("cyflogaeth") means individuals engaged as employees, workers, agency workers and workers employed by gangmasters and "employed" ("a gyflogir") and "employer" ("cyflogwr") are to be construed accordingly;".

The Guidance to the AWO makes it clear that workers employed by gang masters and employment agencies are covered by the Agricultural Minimum Wage. The Panel considered that this should be expressly stated in the interpretation of employment under the proposed AWO to ensure that agency workers and those employed by gangmasters fall within the definition.

Article 12 Minimum rates of pay for overtime

Article 12 sets out the provisions made within the Order for the minimum rates of pay for overtime.

The Panel identified that the article could be open to an interpretation whereby agricultural workers could be paid a higher hourly rate than is prescribed under *Article 11* and *Schedule 1* of the Order by agreement with their employer, but the drafting of the overtime provision could mean that the employer chooses or is obliged to use the agricultural minimum hourly rate as their basis for calculating overtime pay. The Panel did not consider this to be the intention of the overtime provision and that agricultural workers should be paid overtime based upon their actual hourly rate.

In order to clarify the provision, the Panel are proposing to amend the article to read:
"Agricultural workers must be remunerated by their employer in respect of overtime worked at a rate which is equivalent to at least 1.5 times the minimum hourly rate of pay prescribed in Article 12 and Schedule 1, to this Order as applicable to that grade or category of agricultural worker".

Article 14 Protection of pay

Article 14 of the proposed order sets out provisions to protect the pay of agricultural workers who were employed before the 22 April 2022 who may have suffered a reduction in their hourly rate as a result of being assimilated into a lower grade due to changes in the grading structure.

The current pay protection provisions could be interpreted as requiring employers to freeze an agricultural worker's pay at their rate of pay on 22 April 2022 until the minimum hourly rate specified in Schedule 1 of the AWO reaches or exceeds that rate of pay, thus preventing an employer and an agricultural worker from agreeing an increase in their pay.

This provision was drafted by the Panel to ensure no detriment was suffered by an agricultural worker as a result of assimilation onto a new grade, it was not intended to prevent employers from awarding pay increases to employees by agreement.

The Panel proposes therefore, that this article is amended as follows:
"Agricultural workers employed before 22 April 2022 who suffered a reduction in their minimum hourly rate as a result of their assimilation to a lower grade or category or a lower minimum rate of pay as specified in the Table in Schedule 1 of the Agricultural Wages (Wales) Order 2022(1) must either continue to have their pay protected at their rate of pay on the 22

April 2022 until the minimum hourly rate specified in the Table in Schedule 1 (as amended from time to time) which is applicable to their grade reaches or exceeds their rate of pay on that date, or have their salaries increased by mutual agreement."

Article 22 Determining the amount of agricultural sick pay

Article 22 sets out the requirements for employers to pay Agricultural Sick Pay to their employees.

The current wording of *Article 22(1)* states
"Agricultural sick pay is payable at a rate which is equivalent to the minimum hourly rate of pay prescribed in article 11 of, and Schedule 1 to, this Order applicable to that grade or category of agricultural worker."

The Panel believe this could be interpreted as requiring an employer to pay agricultural sick pay at the minimum rate prescribed in *Article 11*, Schedule 1 of the Order. This would not take into account a situation where the agricultural worker is paid an hourly rate in excess of the agricultural minimum wage rate prescribed in *Article 11 and Schedule 1* and the employer wished to pay agricultural sick pay at that higher rate.

To clarify this provision, the Panel propose the wording of *Article 22(1)* is amended to:
"Agricultural sick pay is payable at a rate which is equivalent to at least the minimum hourly rate of pay prescribed in Article 11 and Schedule 1, to this Order as applicable to that grade or category of agricultural worker".

Options

24. The 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.

25. The Panel review the AMW arrangements, and the other provisions of the AWO, propose changes and consult on their proposals before submitting them in draft to Welsh Ministers for consideration.

26. Once the proposal is 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.

27. In arriving at their decisions, the Panel draw on their expertise and consideration of the economic conditions in the industry at the time, as well as all legal requirements (such as the National Minimum Wage, (NMW)). This ensures agricultural workers receive fair, regularly reviewed, wages, allowances and terms of employment, further contributing to the Welsh Government's tackling poverty agenda by safeguarding household incomes, especially within rural communities.

28. The Panel considered the minimum rates of pay which should apply to each of the grades from April 2023. The proposed minimum wage rates were arrived at through negotiation and consideration of employment practices and economic conditions within the sector at the time, including the increase in production costs, the heightened cost of living and the end of the Common Agricultural Policy (CAP).

29. 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 will come into effect)[2]. However, it is not possible to produce a fully quantified analysis of costs and benefits due to constraints by data availability. Some of the costs and benefits are therefore discussed qualitatively.

Option 1: Do Nothing.

30. This is the baseline policy option to maintain the minimum wage rates for agricultural workers at 2022 levels in accordance with the provisions of the Agricultural Wages (No.2) (Wales) Order 2022 (AWO 2022(2)). 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 2023 NMW/NLW rates where the rates in AWO 2023 would fall below the NMW/NLW from April 2023. The costs and benefits will be measured against this baseline policy option.

31. It is important to note that the baseline option represents a situation where the AMW regime continues. Therefore, the costs and benefits of policy 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 2023 Order relative to

[2] Cumulative effects across years arising from AWOs are not considered within this RIA.

the AWO 2022 (2) scenario which also takes account of the NMW/NLW changes from April 2023.

Option 2: Implementing New Order.

32. This is the policy alternative, which would involve replacing the current Order (AWO 2022(2)) with a new Order (2023). The new order includes all the recommendations from the Panel. The new order includes the following key changes to the minimum rates for different categories of workers (Table 1).

Table 1: Summary of proposed changes to the minimum wage rates by grade

Grade of Agricultural Worker	Age	AWO 2022 (2) rate	AWO 2023 rate	NMW/NLW	% increase from baseline*
A1: Agricultural Development Worker (16-17 years)	16 - 17	£4.81	£5.28	£5.28	Same rate
A2: Agricultural Development Worker (18-20 years)	18 - 20	£6.83	£7.49	£7.49	Same rate
A3: Agricultural Development Worker (21-22 years)	21 - 22	£9.18	£10.23	£10.18	+0.5%
A4: Agricultural Development Worker (23 years +)	23+	£9.50	£10.47	£10.42	+0.5%
B1: Agricultural Worker (16-17 years)	16 - 17	£4.81	£5.28	£5.28	Same rate
B2: Agricultural Worker (18-20 years)	18 - 20	£6.83	£7.49	£7.49	Same rate
B3: Agricultural Worker (21-22 years)	21 - 22	£9.18	£10.23	£10.18	+0.5%
B4: Agricultural Worker (23 years +)	23+	£9.79	£10.74	£10.42	+3.1%
C: Agricultural Advanced Worker	23+	£10.08	£11.07	£10.42	+6.2%
D: Senior Agricultural Worker	23+	£11.06	£12.14	£10.42	+9.8%
E: Farm Manager	23+	£12.13	£13.32	£10.42	+9.8%
Apprentice Year 1	N/A	£4.81	£5.28	£5.28	Same rate
Apprentice Year 2 (16-17)	16 - 17	£4.81	£5.28	£5.28	Same rate
Apprentice Year 2 and beyond (18-20 years)	19 - 20	£6.83	£7.49	£7.49	Same rate
Apprentice Year 2 and beyond (21-22 years)	21 - 22	£9.18	£10.18	£10.18	Same rate
Apprentice Year 2 and beyond (23+ years)	23+	£9.50	£10.42	£10.42	Same rate

*baseline is underlined in the table, which is the AWO 2022 (2) rate or the NLM/NMW 2023 whichever the highest

33. The increase from the baseline ranges between 0.5%-9.8%% for the grades with hourly wage rates set above the NWM/NLW levels. The monthly average for the 12-month Consumer Price Inflation (CPI) rate is

9.1% for the months January to December 2022[3] . The predicted quarter inflation rates from Bank of England are 10.3 for Q1 in 2023 and 9.2 in Q2, 7.9 in Q3 and 5.2 in Q4. This compares to the rate of annual pay growth for both total pay and regular pay at 6.4% in September to November 2022[4].

34. 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+)

35. 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+)

36. The hourly minimum wages rates for Grade A1 and A2 workers in the proposal are set at the same level of NMW rates, which means the change in minimum pay levels relative to baseline will be zero.

37. The hourly minimum wages rates for Grade A3 and A4 workers will increase by 0.5%, which will result increase in earnings of workers in these two groups.

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

38. For new entrants of Grade B1 and B2 workers, the proposed minimum hourly wage rates are set at the same level as NMW rates, whereas hourly wage rate for Grade B3 workers will increase by 0.5% and Grade B4 workers by 3.1%.

---

[3] ONS Consumer price inflation, UK - Office for National Statistics https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2022

[4] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/averageweeklyearningsingreatbritain/january2023

39. 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 Wales[5], there is no estimate available on subgroups by grade and by age, or on the number of current workers. Therefore, it is not possible to estimate the impact of hourly wage rate change for Grade B workers by age group.

40. The range of estimates will be provided, based on the assumption of arbitrary distribution of Grade B workers by age group.

41. In absence of data on the distribution of Grade B1-B4 workers by age, the value range of wage cost impact is estimated. The lowest wage impact would be to assume that none of the B1-B4 workers are Grade B3 or B4 and the impact will be zero. The highest wage impact would be to assume all B1-B4 workers either Grade B3 or B4. Estimates are also made based on variations in the proportion of Grade B3 and B4 workers to include estimated values for a share of 25% and 50%.

Grade C-E workers

42. Grade C worker will have an increase in their hour wage rate in AWO 2023. The new proposed rate will increase by 6.2% above the baseline.

43. Grade D workers will have an increase of 9.8% in hourly wage rate.

44. Grade E workers will also have an increase of 9.8% in their hourly rate of pay.

Year 1 and Year 2 Apprentices

45. The minimum wage rates for the Year 1 and Year 2 apprentices within the 2023 Order are set as the same levels as the NMW/NLW 2023. According to the apprentice qualification data from Lifelong Learning Record Wales (LLWR), the average number of apprentices was 570 of the four years in 2017-18, 2018-19, 2019-20 and 2020-2021. However, the impact will be zero due to no change in hourly rate relative to baseline (NMW/NLW 2023 in this case).

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

Changes in other provisions

46. The provisions for the dog allowance, night allowance and birth and adoption grants, will increase in line with the percentage increase in NMW/NLW.

Summary of quantification of wage costs/earnings

47. Due to data availability, the breakdown by grade is not available for many of the worker groups. The costs and benefits associated with agricultural workers for current A3, A4, B3, B4 and C-E were estimated for both basic pay and overtime pay in the RIA using data from Farm Labour and Wage Statistics (Defra, 2012)[6]. 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.

48. 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.

49. 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 2022 by farm employers. Therefore, the impact of AWO is likely to be much less as anecdotally many employers pay market rates well above the minimum rates and the use of AWO by employers is at low levels.

[6] Available at: http://webarchive.nationalarchives.gov.uk/20130123162956/http:/www.defra.gov.uk/statistics/files/defra-stats-foodfarm-farmmanage-earnings-labour2012-120627.pdf

Enforcement cost

50. In terms of enforcement costs, it is anticipated that administrative costs accruing to the Welsh Government would be broadly similar to previous AWOs as the Welsh Government enforces all Orders introduced under the 2014 Act.

51. 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 six formal cases needing varying levels of investigation during 2016-2022.

52. 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 is one case per year to investigate and remains at the same level as in previous years.

Administrative cost

53. In addition to the cost of compliance, there will be a cost to farm businesses for adjusting to the requirements of the 2023 Order.

54. 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.

55. It is assumed that each employer would need one hour[7] to familiarise themselves with the 2023 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 (2022)[8], it is assumed that the average cost per hour of a farmer's time is £13.28 (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 £11.90 per hour. In addition, the hourly rate used here is an

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

[8] Estimates for 2022 (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

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.

56. According to ONS statistics on business population by region and by sector, there are 14,475 businesses in agriculture, forestry and fishing sector in Wales in 2021 with 3,010 businesses being employers[9]. The administrative costs to farm businesses are therefore estimated at £40k for Wales assuming one hour required per business. If using the median value for the labour cost (£11.90 per hour), the total admin costs to farm businesses are estimated at £36k. 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.

57. However, it should also be noted that not all the 3,010 agricultural businesses who employed labour use the AWO, but it is not known exactly how many do use the AWO.

58. 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

59. In this RIA, we have reviewed the evidence presented in the previous RIAs of AWOs 2016-2022 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.

60. *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 inconclusive. There is also evidence suggesting that the

[9] 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 2022 within statistics on BUSINESS POPULATION ESTIMATES FOR THE UK AND REGIONS 2022. Available at: https://www.gov.uk/government/statistics/business-population-estimates-2022

introduction of the minimum wages is associated with an increase in labour productivity as workers feel more rewarded for hours worked[10]. On balance, the evidence suggests that there are limited adverse effects of the introduction of the minimum wages on employment and is likely to increase labour participation at the margin and will cause a net positive impact on workers weakly attached to the labour market[10]. This is especially the case where the minimum wage rates have been set incrementally within context of economic/labour market conditions. On the contrary, if the minimum wage is set too high, some literature suggests that not only can it result in job losses, but also discourage firms from employing low-wage, low-skilled workers thus causing adverse effects on demand in the macro economy[11, 9].

61. *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 educational levels – the significant rise in the National Living Wage in 2020 is the likely reason, increasing wages in lower skilled jobs (IFS, 2022)[12].

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

63. *In-work poverty:* Minimum wages tend to benefit the lowest-earning working -individuals, reducing in-work poverty thus having a positive socio-economic impact. This positive impact, however, may not necessarily positively impact on low earning households. Overall, the impact of minimum wages on poverty is small. However, the latest report by the Institute for Fiscal Studies (IFS)[13] has found that income in poorer households has grown marginally, reducing the relative and absolute

[10] Manning, A., 2021. The elusive employment effect of the minimum wage. Journal of Economic Perspectives, 35(1), pp.3-26.
[11] 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.
[12] Neumark, D., 2018. Employment effects of minimum wages. IZA World of Labor.
[13] Institutes for Fiscal Studies (IFS), 2016-2022. Living Standards, Poverty and Inequality in the UK: 2015-16 to 2021-2022. IFS Report Series R114-R215. Available at: https://ifs.org.uk/sites/default/files/output_url_files/R215-Living-standards-poverty-and-inequality-in-the-UK-2022.pdf

poverty rate by 1.7 percentage points and 1 percentage point respectively (reflected in the fall in the median income) – this could be attributed to the increase in the NLW at the start of the pandemic. Nevertheless, the study (IFS, 2022) still calculated the Gini coefficient as 0.35 in 2019-2020 and 0.34 in 2020-21 proving a decline in a positive direction, but still far higher compared to levels throughout the 1970s (around 0.24). Consequently, this means that income inequality still remains at a high level in the UK and the NMW benefits the middle of the overall working-age income distribution most (IZA, 2022[14]).

64. *Company level impacts:* Research suggests that firm responses to involuntary increases in wage costs can include increasing prices, increasing labour productivity[15], accepting reduced profits, organisational changes (such as tighter human resource practices, increased performance standards at work, and better management practices), efficiency wage[16] and training responses (increasing training provisions to employees). Some businesses may look to upskill some roles and increase productivity to recoup higher wage costs[17]. Increases in the NMW may encourage firms to reduce costs or accept lower profit margins. There is a risk to businesses that were already close to the margin of exit, that NMW increases may accelerate exit from markets due to wage hikes[18,19]. In the modern economy firms may counteract this by adjusting production functions in order to reduce overhead costs to ensure survival. This may come in the form of new technologies and increased reliance on capital and high-skilled labour with reduce reliance on lower skilled labour[20].

65. 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

[14] Giupponi, G., Joyce, R., Lindner, A., Waters, T., Wernham, T. and Xu, X., 2022. The Employment and Distributional Impacts of Nationwide Minimum Wage Changes. mimeo. Available at: https://conference.iza.org/conference_files/LaborMarkets_2022/giupponi_g7905.pdf

[15] 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.

[16] 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.

[17]National 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).

[18] 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.

[19] Alexandre, F., Bação, P., Cerejeira, J., Costa, H. and Portela, M., 2022. Minimum wage and financially distressed firms: another one bites the dust. Labour Economics, 74, p.102088.

[20,16] 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.

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 customers[21]. 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.

66. 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.

Costs & benefits

67. This section assesses the potential costs and benefits for both policy options. The impact is considered for a 12-month period.

68. 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 B4, Grade C-E agricultural workers. 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 with the 2023Order. Where estimates are provided, they are indicative, with Appendix A containing the detailed calculations of how these estimates were derived.

69. In terms of minimum wage rate changes, the 2023 Order represents a rise of 0.5-9.8% rise for agricultural workers within Grades A3, A4, B3, B4 and

Grades C-E. This is estimated to affect up to 9,000 workers (with 28% of whom being part-time and casual workers) out of the 12,450 paid agricultural workers in Wales based on statistics in 2021.

70. 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 A3, A4, B3, B4, C-E, 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 2023

Impact on Employment

71. 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 paid[22]. This is consistent with the findings from the literature review in the previous RIAs of AWO 2016-2022 for Wales.

72. 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-analysis[23] (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

[22] 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.
[23] A statistical analysis of a large collection of results from individual studies for the purpose of integrating the findings.

carried out RAND Europe[24] 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 employment effect is so small that it is negligible and has no meaningful policy implication.

73. The agricultural labour force in Wales in 2021 totalled 50,400 people, with 12,450 of these being employed as farm workers (see Table 7 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 2021 data for the total agricultural labour force in Wales to provide crude estimates of workforce grade composition (see in

74. Table 8 Appendix A). It is estimated that some 3,000 workers may be within Grades A1-A4; 7,000 workers within Grades B1-B4 and some 2,000 workers within Grades (C-E) based on the AWO 2022 grading system.

75. 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 36 and 79 farm workers (see

76. Table 18 in Appendix B for detailed calculations). It should be noted that these minimum pay rate increases are not the full difference between AWO 2023 and the 2022(2) Order; instead, it has taken account of increases in NMW and NLW from April 2022. If using the median value of elasticity coefficient -0.03, the reduction in employment would be between 6 to 12 people (see Table 19 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 negligible.

77. In terms of reductions to hours worked, some evidence[25] suggests that it is likely that some farm businesses will seek to absorb higher labour costs

[24] 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.

[25] 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

through reducing the number of hours worked in addition to other effects on employment, although this cannot be estimated with any degree of accuracy.

78. However, evidence from the literature suggests that this effect might be limited.

79. 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 by Stewart and Swaffield (2008)[26] 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)[27] 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)[28]).

Earnings

80. 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.

[26] 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.
[27] 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.
[28] 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.

81. 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 2021 agricultural labour force data for Wales (see Table 7 to

82.
83.

84. Table 10 in Appendix A) of changes in gross annual wage costs for Option 2 relative to the baseline option. These estimates are also provided in
85. Table 2 and Table 3, which suggest that the changes in costs for Option 2 are estimated between £3.4-£6.1 million in 2022. This represents a transfer from farm businesses to farm labour, with the former incurring an equivalent cost of £3.4-£6.1 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.

86. 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.

87. It should also be noted that the difference in minimum wage rates between Option 1 and 2 is not the full difference between AWO 2023 and the 2022(2) Order. It also takes account of statutory NMW and NLW from April 2022.

Table 2: Estimated changes in annual wage costs, waged agricultural workforce, Wales 2021 (a-c) assuming 0% of Grades A1-A4 workers being at A3 or A4 and 0% of B1-B4 Grades being at B3 or B4

Grade	**Full-time (£)**		**Part-time(£)**		**Casual (£)**		**Total (£)**
	Basic	Overtime	Basic	Overtime	Basic	Overtime	All
A1-A4	£0	£4,630	£0	£0	£0	£4,752	£9,382
B1-B4	£0	£192,589	£0	£0	£0	£47,572	£240,161
C	£388,121	£90,276	£136,797	£0	£0	£0	£615,195
C	£1,293,738	£300,921	£214,967	£0	£0	£0	£1,809,625

D	£788,185	£183,330	£97,411	£0	£0	£0	£1,068,927
E	£394,756	£91,819	£35,778	£0	£0	£0	£522,353
Total (£)	£2,864,801	£863,565	£484,953	£0	£0	£52,324	**£4,265,643**

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 3: Estimated changes in annual wage costs, waged agricultural workforce, Wales 2020-21 (a-c) assuming 100% of A1-A4 Grades being at A4 and 100% of B1-B4 Grades being at B4

Grade	**Full-time (£)**		**Part-time(£)**		**Casual (£)**		**Total (£)**
	Basic	Overtime	Basic	Overtime	Basic	Overtime	All
A1-A4	£19,904	£4,630	£21,046	£0	£28,951	£4,752	£79,282
B1-B4	£827,992	£192,589	£606,116	£0	£289,806	£47,572	£1,964,075
C	£388,121	£90,276	£136,797	£0	£0	£0	£615,195
C	£1,293,738	£300,921	£214,967	£0	£0	£0	£1,809,625
D	£788,185	£183,330	£97,411	£0	£0	£0	£1,068,927
E	£394,756	£91,819	£35,778	£0	£0	£0	£522,353
Total (£)	£3,712,697	£863,565	£1,112,114	£0	£318,757	£52,324	**£6,059,457**

Notes:

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

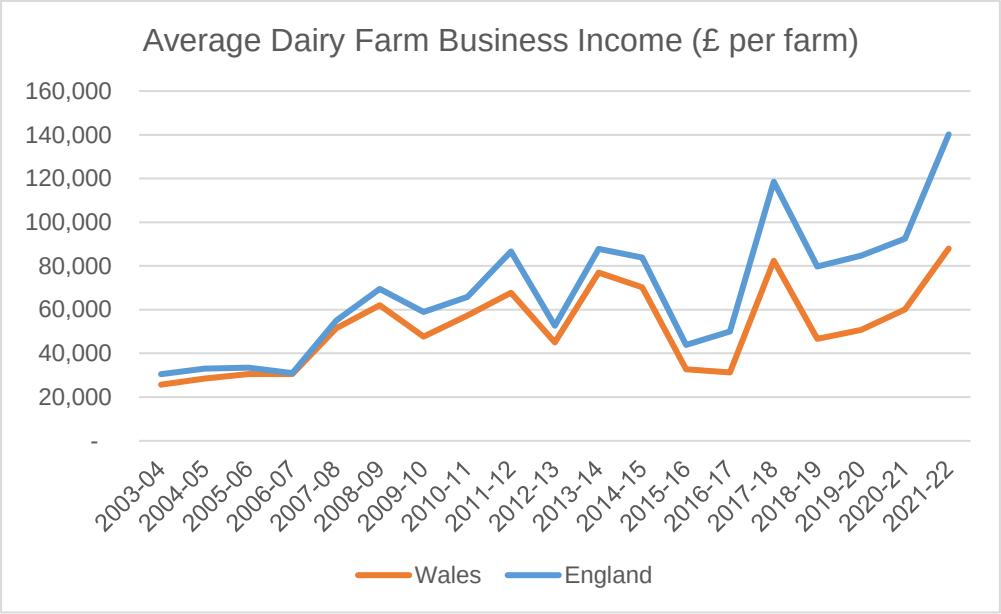
(b) Defra assumed that part-time workers do not work overtime.

(c) Totals may not sum due to rounding.

Source: Authors' calculations

88. 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, farm 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 up till 2020 (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[29]



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-efficient.

89. 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.

90. 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 a 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.

[29] Source: Adapted from AHDB data collated from Defra and Welsh Government (https://ahdb.org.uk/dairy/farm-business-income) and Farm Income Statistics for Wales (2020-2021) https://gov.wales/farm-incomes-april-2020-march-2021#:~:text=Average%20farm%20business%20income%20in%20Wales%20in%202020-21%2C,has%20returned%20to%20a%20moderate%20level%20of%20%C2%A360%2C200

91. Three tests were carried out varying the percentages for Grade 2, Grade 4 or Grade 5 (in AWO grades prior to 2020 which are corresponding to Grades B4, C and D in the proposed AWO 2022(2)) full-time workers (see
92.
93.

94. Table 4). 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%[30]. The old grades prior to 2020 (Grade 2, Grade 4 or Grade 5) were referred to because the calculations used the Defra labour force survey data from 2012 when the old grades were in use.

95. In addition, sensitivity analysis was done to show the impact of variations in the proportions of Grades B1-B4 Grade that are at Grade B4 in the AWO 2022 (2) as these grades represent the most changes in terms of hourly wage rate. As B1-B4 is the largest group of agricultural workers, the assumptions made for this group will have the greatest impact on the results. Four arbitrary percentages (0%, 25%, 50% and 100%) were used as the proportions of this group of workers being at B4 grade to demonstrate the range of values of wage cost changes.

96. For composition 1, the wage cost of Option 2 is estimated at £4.3-£6.1 million. For composition 2, the wage cost of Option 2 is estimated £3.8-£5.8 million. For composition 3, the wage cost of Option 2 is estimated £3.4-£5.4 million. Covering all the ranges for the three different compositions, the wage cost of option 2 is estimated between £3.4 million and £6.1 million.

97. The assumptions on the proportion of workers who are currently at, 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. Collection of data on

[30] 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.

farm workers by grade, by age and by qualification in Wales would help improving accuracy of estimates. However, the cost of this also needs to be considered against the use/value of the AWO.

Table 4: 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 D)	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%	

* The old grades prior to 2020 (Grade 2, Grade 4 or Grade 5) were referred to because the calculations used the Defra labour force survey data from 2012 when the old grades were in use

Impact on prices, productivity and profitability

98. 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 employed labour used on farm and their current wages) – 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 such as output levels and other fixed and variable costs attached to the business. Existing literature is unclear on the linkages between minimum wages and these factors and are therefore assessed qualitatively.

99. 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.

100. There is limited evidence as to the linkage between minimum wage structure and labour productivity on farms in Wales, although there is some wider evidence suggesting that productivity does rise in turn with an increase in the minimum wage. 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.

101. In the absence of other adjustments, increased wage costs would be expected to put a downward pressure on profits (reflecting the benefit 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

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

Benefits

Impact on Earnings

103. 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 £3.4- £6.1 million per annum, assuming full use of the AWO. It should be noted that these benefits are not related to full change between AWO 2022(2) and the 2023 Order; instead, they relate to the changes in wage rates taking account of increases in NMW and NLW from April 2022.

104. 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

105. 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.

106. 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 12,450 waged workers within the agriculture sector in Wales in 2021, 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 9,000 farm workers on part-time or seasonal basis.

107. There is an increase of 2-9.8% in hourly rates for Grade C-E workers. This could positively impact some 1,300 people on full-time basis, 700 on part-time basis (see

108.

109.

110. Table 10) in Appendix A.

111. 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

112. It is anticipated that the 2023 Order will contribute to developing and retaining skills by providing a clear career structure within the agricultural sector.

113. An early empirical study looking at the relationship between work-related training and the introduction of NMW in Britain (2003)[31] 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.

114. A study on the impacts of minimum wages by Riley and Bondibene (2017)[32] 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.

115. A most recent study by Bellmann, L. (2017)[33] 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

[31] 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.
[32] Riley, R. and Bondibene (2017). Impacts of minimum wages: review of the international evidence.
[33] 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).

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.

116. 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.

117. 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.

118. 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.

119. As the minimum wage rates set out in the 2023 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.

Sector impacts

Impact on local government

120. No evidence of significant differential impact.

Impact on voluntary sector

121. No evidence of significant differential impact.

Impact on small businesses

122. 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 the AWO. Some agricultural businesses and workers are not aware of the existence of the AWO and some farm businesses do not use the AWO as they employ workers who are registered as self-employed or contractors.

123. According to the Office for National Statistics (see Table 5), there are 14,475 agricultural, forestry and fishing businesses in Wales, of which 3.010 (20.8%) are employer businesses at the start of 2022. The figures for England were 97,180 and 37.8%. The data suggests that agriculture in Wales is dominated by small businesses (16.6% being businesses that employ less than five employees and 4.2% being businesses with five and more employees) and the majority of businesses do not employ labour (73.9%). 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.

124. 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 disproportionally due to increases in the cost of paid labour.

Table 5: Number of agricultural businesses by size band in England and Wales (start 2022)[34]

Agriculture, Forestry and Fishing	England		Wales	
	No. of Businesses	%	No. of Businesses	%
Number of businesses	97,180	*100.0*	14,475	*100.0*
Number of employers	39,195	*40.3*	3,010	*20.8*
With no employees (unregistered)*	4,290	*4.4*	765	*5.3*
With no employees (registered)*	53,695	*55.3*	10,700	*73.9*
1	12,945	*13.3*	1,115	*7.7*
2-4	17,525	*18.0*	1,295	*8.9*
5-9	5,535	*5.7*	430	*3.0*
10-19	1,855	*1.9*	135	*0.9*
20-49	880	*0.9*	25	*0.2*
50-99	255	*0.3*	10	*0.1*
100-199	100	*0.1*	0	*0*
200-249	25	*0.0*	0	*0*
250-499	45	*0.0*	0	*0*
500 or more	30	*0.0*	0	*0*

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

125. 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.

126. 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

127. 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 (2021/2022)[35] for Wales suggests that the costs for

[34] Source: ONS (2022) Business population estimates for the UK and regions 2022, Table 20 and Table 21. https://www.gov.uk/government/statistics/business-population-estimates-2022

[35] Data for 2021/2022 is not yet available. Next scheduled release date is 12 January 2023. https://gov.wales/farm-incomes-april-2020-march-2021

casual and regular labour accounted for 4-7% of their agricultural cost base (see

128. Table 6).

Table 6 : Labour cost as a percentage of total input for farm businesses in Wales by sector (2018-2019) to (2021-2022)[36]

	Labour cost (000 £), casual and regular labour				Agricultural cost (000 £)				Share of labour cost (%)			
Farm type	**18-19**	**19-20**	**20-21**	**21-22**	**18-19**	**19-20**	**20-21**	**21-22**	**18-19**	**19-20**	**20-21**	**21-22**
LFA Cattle and Sheep	3.3	3.4	3.2	3.6	89.1	85.4	84.6	94.7	4%	4%	4%	4%
Lowland Cattle and Sheep	2.7	3.4	3.0	3.3	77.0	85.5	77.0	91.0	4%	4%	4%	4%
Dairy	23.7	24.9	28.7	27.6	372.8	372.8	396.8	411.0	6%	7%	7%	7%
All Farms	6.6	6.9	7.5	7.8	134.1	132.8	135.3	147.6	5%	5%	6%	5%

129. 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.

130. In relation to profitability, there is notable variation between farms in Wales. Information on farm business income for 2021-2022 suggests that there is variation across and within the major farm types. For dairy farms, the average farm business income was around £88,000, whilst cattle and sheep farms in the Less Favoured Area (LFA) was around £38,600, and lowland cattle and sheep farms around £26,500[37].

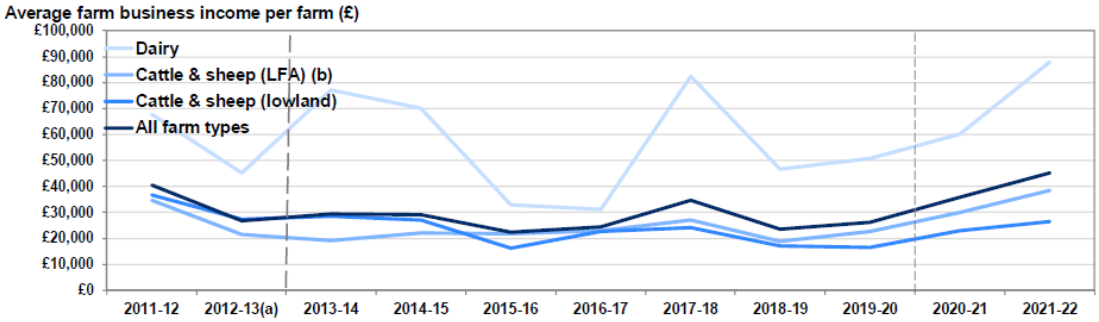
131. Time series of farm business income data (see Figure 2) suggests that business profitability across the main farm types stays at a low level, (particularly for cattle and sheep farms) and that there is also variation between years and between farm types. For example, the farm business income for 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 and recovered again in 2020/21 and 2021/22) in recent years

[36]Calculated from Farm Business Survey (FBS) data for Wales (2020-2021). https://gov.wales/sites/default/files/statistics-and-research/2022-03/farm-incomes-april-2020-march-2021-664_0.pdf

[37] Welsh Government January 2023. Statistics on Farm Incomes. Available at: https://www.gov.wales/sites/default/files/statistics-and-research/2023-01/farm-incomes-april-2021-march-2022-673.pdf

and income for LFA cattle and sheep farms have been relatively stable but at low levels.

Figure 2: Farm business income in recent years (2011/12-2021/22) by Farm Type[38]



132. 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 do done so without subsidy in the past few years since 2013-14 and this percentage increased to over 60% in year 2018-19 (see

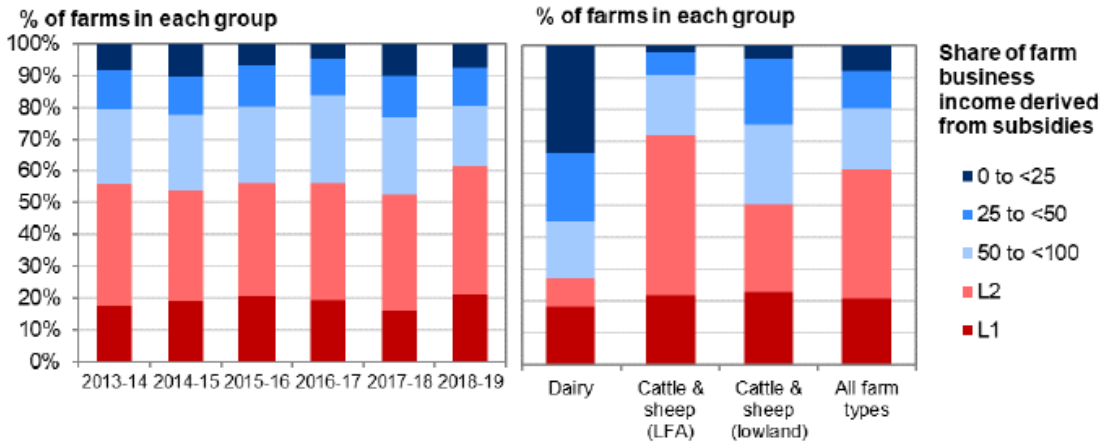
133. Figure 3). The level of dependence varies between farm types. In 2018-19, around 70% of cattle and sheep (LFA) farms either made a loss or would have done so without subsidy, compared with around 50% of lowland cattle and sheep farms and around 25% of dairy farms.

134. 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[39]

[38] Based on Statistics on Farm Incomes (2021-2022). Available at: https://www.gov.wales/sites/default/files/statistics-and-research/2023-01/farm-incomes-april-2021-march-2022-673.pdf

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

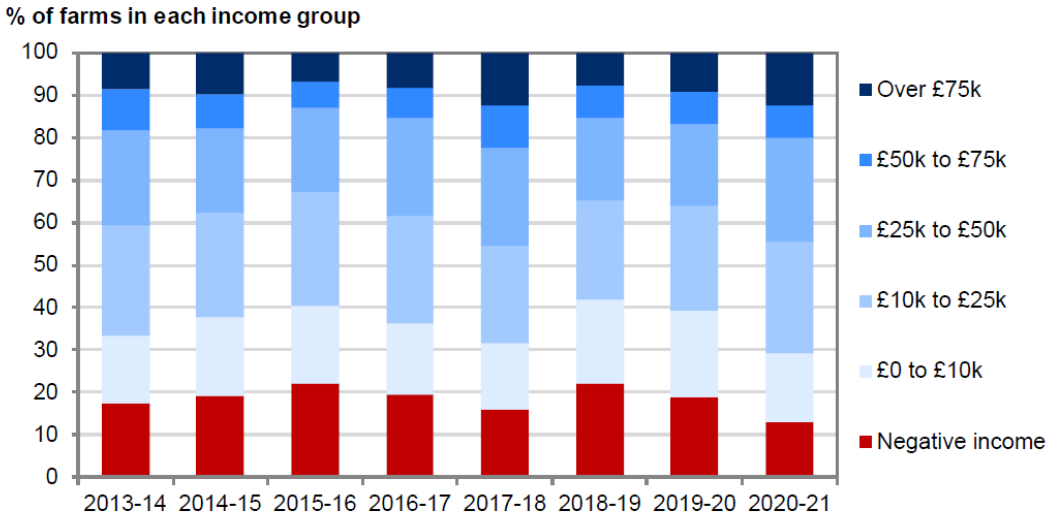


Note *: subsidies include agri-environment payments and single farm payments; L1 - Including subsidy, the farm made a loss; L2 - Without subsidy, farm would have made a loss.

135. The FBS data from year 2013-14 to year 2021-22 suggest (Figure 4) that including subsidies, about 10-20% farm businesses in Wales have a negative income.

Figure 4[40]

[40] Source: Statistics on Farm Incomes (2021-2022). Available at: https://www.gov.wales/sites/default/files/statistics-and-research/2023-01/farm-incomes-april-2021-march-2022-673.pdf



136. Several studies (AHDB 2017; Dwyer 2018; House of Commons Welsh Affairs Committee, 2018)[41] 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.

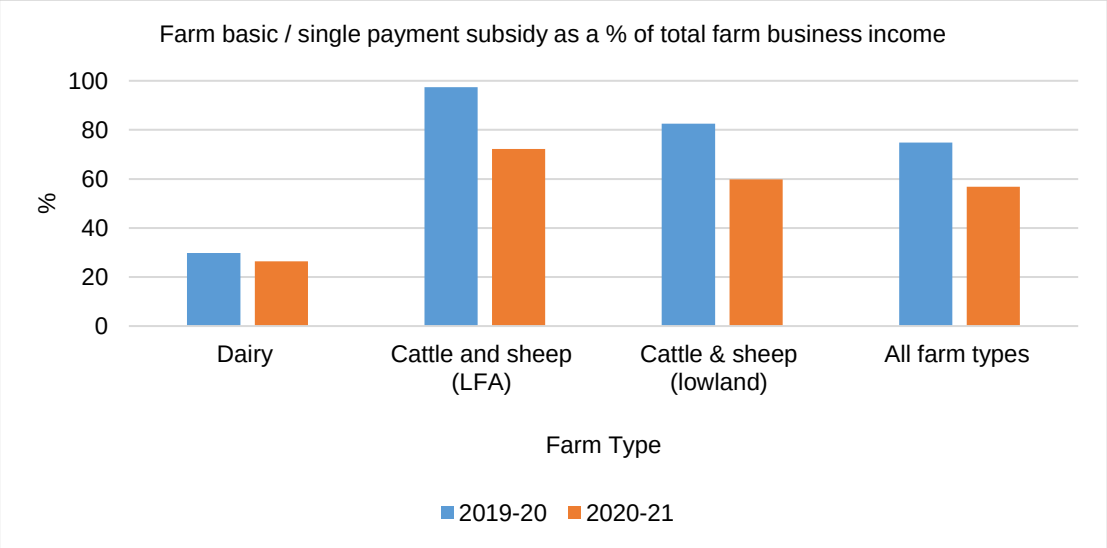
137. In general terms, increases to the agricultural cost base will impact on farm income and profitability, but the extent of this cannot be accurately forecast. However, it is reasonable to assume that the 2023 Order may add further pressure on the cost base increases when compared to baseline, particularly under the multiple impacts from the Covid-19 pandemic, EU exit, the phase out of Direct Payments and recent rises in cost of living and inflations.

For all farm types, the basic / single farm payments made up a greater percentage of total farm business income in 2019-2020 (Figure 5). With the Covid-19 pandemic in 2019-2020 economic conditions were unfavourable consequently eroding income from agriculture and diversification. Figure 5 presents a notable drop in the percentage of the subsidy out of total farm business income in 2020-21 on cattle and sheep

[41] 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.

(LFA) (72.2%) and cattle and sheep (lowland) (59.8%) farms due to the increase in income from other farm activities (agriculture, agri-environment, diversification). It is clear that dairy farms rely on the basic payment significantly less than cattle and sheep farms as they generate enough income from agriculture. This is not the case with cattle and sheep farms who made losses from purely agricultural activities in 2019-20.

Figure 5: Farm basic / single payment subsidy as a percentage of total farm business income in Wales[42]



Competition Assessment

138. See Appendix C.

Conclusion

139. 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 Grades A3, A4, B3, B4 and C-E in AWO 2023 where the changes occur in the hourly wage rates. However, the distribution by grade of workers was based on the Defra study in 2012 which was not Wales specific. The administrative costs to the farmers are

[42] Adapted data from Welsh Government Farm Incomes: April 2020-2021. Available at: (https://gov.wales/farm-incomes-april-2020-march-2021)

estimated for their time to familiarise themselves with and make adjustments in accordance with the 2023 Order. It should also be noted that the two policy scenarios are not the full difference between the 2023 Order and the 2022 (2) Order; the differences in labour minimum wage rates also take account of the changes in NMW and NLW from April 2023

140. Grades A3, A4, B3, B4, and C-E in the 2023 Order will have an increase between 0.5-9.8% from the AWO 2022 (2) rates or above the NMW/NLW rates from April 2023

141. Potential costs that are additional for Option 2 are summarised as follows:

Employment: The proposed increases may lead to reduction of about 6-79 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 £3.4-6.1 million per annum. This is the estimate for additional earnings under the 2023 Order also taking account of changes in NMW/NLW from April 2023.

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 of 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 2023 Order. It is estimated that this will cost farming businesses £36k (using median agricultural labour rate).

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.

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

Earnings: The proposed minimum wage rate changes are estimated to transfer £3.4-£6.1 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. Compared to other industries, as the AWO 2023 minimum wage rates for skilled workers at higher grades (Grades A3, A4, B3, B4, and 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.

143. 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 2023 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 2023 may be smaller than estimated.

APPENDIX A: Supporting Calculations for Cost and Benefit Estimates

Employment Data

Table 7: Persons engaged in work on agricultural holdings, Wales (2022)[43]

Type of Labour		**Number of people**
Total farmers, partners, directors and spouses: (a)		
	Full-time	18,200
	Part-time (b)	20,200
	Total	**38,400**
Farm workers:		
	Regular full-time (c)	2,650*
	Regular part-time (b) (c)	3,100*
	Seasonal or casual workers	5,750*
	Total farm workers	**11,500**
Total labour force		**50,400**

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.*

[43] Source: Welsh Government, June 2022 Survey of Agriculture and Horticulture: Results for Wales. https://gov.wales/sites/default/files/statistics-and-research/2022-11/survey-agriculture-and-horticulture-june-2022-005.pdf

Earnings

Table 8: Persons engaged in work on agricultural holdings, Wales (2021)[44]

	Type of labour	No. of people	% composition
Full-time	Regular full-time farm workers*	3,500	28%
Part-time	Regular part-time farm workers	3,300	27%
Casual	Seasonal or casual workers	5,600	45%
Total waged labour force		12,450	100%

Note: 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 9: Profile of workers at each AWO grade (average %), UK (2007-2010)[45]

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%	

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

Table 10 combines data from

[44] 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

[45] 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.

Table 8 and Table 9 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 10: Number of workers at each AWO grade, estimated for Wales 2020(a)

Grade (b)	Full-time	Part-time	Casual
Grade 1	174	461	2,438
Grade 2	1,424	2,075	3,813
Grade 3	262	231	
Grade 4	872	362	
Grade 5	29	99	
Grade 6	145	33	
Total	**2,906**	**3,261**	**6,251**

Note: (a) Totals do not add up to 15,500 due to rounding in Table 9*.*

(b) The old grades prior to 2020 (Grade 2, Grade 4 or Grade 5) were referred to because the calculations used the Defra labour force survey data from 2012 when the old grades were in use

Table 11 provides Defra's estimates of the average hours worked by full time, part-time and casual staff.

Table 11: Hours worked by worker type per week, UK, 2003 to 2010 average[46]

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

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

[46] 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.

Table 12 summarises the number of weeks that each type of workers worked per year.

Table 12: Number of weeks worked per year by different type of employment[47]

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

Table 13 provides the agricultural minimum wages set in the AWO 2023 for the agricultural industry and the increases in wage rates by grade for both basic and overtime pay.

Table 13: AWO hourly pay rates, baseline and 2022(2)[48]

Grade or category of worker	Basic pay 2023	Baseline Basic pay	Basic pay increase	Overtime pay increase*
Grade 1 work (aged 25+) (Grade A4, 23+)	£10.47	£10.42	£0.05	£0.08
Grade 2 worker (Grade B4, 23+)	£10.74	£10.42	£0.32	£0.48
Grade 3 worker (Grade C)	£11.07	£10.42	£0.65	£0.98
Grade 4 worker (Grade C)	£11.07	£10.42	£0.65	£0.98
Grade 5 worker (Grade D)	£12.14	£11.06	£1.08	£1.62
Grade 6 worker (Grade E)	£13.32	£12.13	£1.19	£1.79

[47] 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.

[48] 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 2023.*
****Subject to protection of pay*

Table 14 combines data in Table 8,

Table 10-Table 13 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 wage 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. Four arbitrary percentages (0%, 25%, 50% and 100%) were used as the proportions of Grades B1-B4 works to demonstrate the range of values of wage cost changes. The results are presented in

Table 14 to Table 17.

Table 14: Additional labour costs per year for Option 2 (Grade B4 accounting for 0% of Grades B1-B4)

Grade	**Full-time (£)**		**Part-time(£)**		**Casual (£)**		**Total (£)**
	Basic	Overtime	Basic	Overtime	Basic	Overtime	All
1 (Grade A1-A4)	£19,904	£4,630	£21,046	£0	£28,951	£4,752	£79,282
2 (Grade B1-B4)	£0	£192,589	£0	£0	£0	£47,572	£240,161
3 (Grade C)	£388,121	£90,276	£136,797	£0	£0	£0	£615,195
4 (Grade C)	£1,293,738	£300,921	£214,967	£0	£0	£0	£1,809,625
5 (Grade D)	£788,185	£183,330	£97,411	£0	£0	£0	£1,068,927
6 (Grade E)	£394,756	£91,819	£35,778	£0	£0	£0	£522,353
Total (£)	£2,884,705	£863,565	£505,998	£0	£28,951	£52,324	**£4,335,543**

Table 15: Additional labour costs per year for Option 2 (Grade B4 accounting for 25% of Grades B1-B4)

Grade	**Full-time (£)**		**Part-time(£)**		**Casual (£)**		**Total (£)**
	Basic	Overtime	Basic	Overtime	Basic	Overtime	All
1 (Grade A1-A4)	£19,904	£4,630	£21,046	£0	£28,951	£4,752	£79,282

2 (Grade B1-B4)	£206,998	£192,589	£151,529	£0	£72,452	£47,572	£671,140
3 (Grade C)	£388,121	£90,276	£136,797	£0	£0	£0	£615,195
4 (Grade C)	£1,293,738	£300,921	£214,967	£0	£0	£0	£1,809,625
5 (Grade D)	£788,185	£183,330	£97,411	£0	£0	£0	£1,068,927
6 (Grade E)	£394,756	£91,819	£35,778	£0	£0	£0	£522,353
Total (£)	£3,091,703	£863,565	£657,527	£0	£101,402	£52,324	**£4,766,522**

Table 16: Additional labour costs per year for Option 2 (Grade B4 accounting for 50% of Grades B1-B4)

Grade	**Full-time (£)**		**Part-time(£)**		**Casual (£)**		**Total (£)**
	Basic	Overtime	Basic	Overtime	Basic	Overtime	All
1 (Grade A1-A4)	19,904	4,630	21,046	0	28,951	4,752	79,282
2 (Grade B1-B4)	620,994	192,589	454,587	0	217,355	47,572	1,533,097
3 (Grade C)	388,121	90,276	136,797	0	0	0	615,195
4 (Grade C)	1,293,738	300,921	214,967	0	0	0	1,809,625
5 (Grade D)	788,185	183,330	97,411	0	0	0	1,068,927
6 (Grade E)	394,756	91,819	35,778	0	0	0	522,353
Total (£)	3,505,699	863,565	960,585	0	246,306	52,324	**5,628,479**

Table 17: Additional labour costs per year for Option 2 (Grade B4 accounting for 100% of Grades B1-B4)

Grade	**Full-time (£)**		**Part-time(£)**		**Casual (£)**		**Total (£)**
	Basic	Overtime	Basic	Overtime	Basic	Overtime	All
1 (Grade A1-A4)	£19,904	£4,630	£21,046	£0	£28,951	£4,752	£79,282
2 (Grade B1-B4)	£827,992	£192,589	£606,116	£0	£289,806	£47,572	£1,964,075
3 (Grade C)	£388,121	£90,276	£136,797	£0	£0	£0	£615,195
4 (Grade C)	£1,293,738	£300,921	£214,967	£0	£0	£0	£1,809,625
5 (Grade D)	£788,185	£183,330	£97,411	£0	£0	£0	£1,068,927
6 (Grade E)	£394,756	£91,819	£35,778	£0	£0	£0	£522,353
Total (£)	£3,712,697	£863,565	£1,112,114	£0	£318,757	£52,324	**£6,059,457**

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 18: 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(Grades A1-A4)	2,900	-0.19	0-0.5%	-3~0
2(Grades B1-B4	0- 7,250	-0.19	0%-3.1%	-41~0
3 (Grade C)	550	-0.19	6.2%	-6
4 (Grade C)	1,400	-0.19	6.2%	-17
5 (Grade D)	150	-0.19	9.8%	-9
6 (Grade E)	200	-0.19	9.8%	-4
Total	**12,450**	**-**	**-**	**-36~-79**

Table 19: 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(Grades A1-A4)	2,900	-0.03	0-0.5%	-0.4~0
2(Grades B1- B4)	0-7,250	-0.03	0%-3.1%	-6~0
3 (Grade C)	550	-0.03	6.2%	-1
4 (Grade C)	1,400	-0.03	6.2%	-3
5 (Grade D)	150	-0.03	9.8%	-1
6 (Grade E)	200	-0.03	9.8%	-1
Total	**12,450**	**-**	**-**	**-6~--12**

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://www.gov.wales/agricultural-wages-order-2023-html