Consultation on increasing the holiday entitlement

26 July 2006

Comments by the Association of Labour Providers on DTI Consultation

Introduction

In June 2006, DTI *published increasing the Holiday Entitlement – an initial consultation* , accessible at - **http://www.dti.gov.uk/consultations/page30026.html**.

Comments are sought by 22 September 2006.

This response sets out the views of the Association of Labour Providers (ALP). The ALP was founded by 18 labour providers in January 2004. It now has 118 members and is generally recognised as the trade association for those labour providers that serve the agriculture and food industry. Labour providers generally supply workers for whom they are paid an hourly rate. The increased holiday entitlement will increase the rate that needs to be paid. The consultation is very relevant to them.

Executive summary

The proposed increase in the minimum wage will increase the margin that labour providers need to charge labour users, by about 10p per hour for each additional four days holiday. Labour providers will struggle to secure this extra amount from labour users.

There is a risk that additional add-ons to the minimum wage will drive some business into the informal economy. The government needs to take action to prevent this.

There should be maximum flexibility in respect of how workers take their holiday entitlement – including allowing them to roll up the benefit into pay.

The proposal

It is proposed that annual holiday entitlement should rise from 20 days to 24 days from 1 October 2007. A further increase to 28 days is proposed, the timing being decided following the consultation.

How labour providers are affected

Labour providers supply workers to packhouses and factories. They normally receive a rate of so much per worker per hour. That rate has to cover the minimum wage, all legal add-ons and the business's costs and profits. There is a well established formula which translates a given minimum wage into a minimum rate that needs to be charged.

At present 20 days holiday is equivalent to 8.33% of wage costs; the increase to 24 days would increase this to 10.17%, and to 28 days to 12.06%. How this would translate into the minimum charge a labour provider would have to make is illustrated in the table below -

	Rate from	***Effect of***	***Effect of***

	1/10/06	*24 days*	*28 days*
Minimum wage	£5.35	£5.35	£5.35
Employer's NICs @ 6.65%	£0.36	£0.36	£0.36
Holiday pay @ 8.33%, 10.17% & 12.06%	£0.45	£0.54	£0.65
Sick pay (allow 7 days) @ 1%	£0.05	£0.05	£0.05
Overheads @ 6%	£0.32	£0.32	£0.32
Cost without transport (22%, 24% & 26%)	£6.53	£6.62	£6.73
Transport @ 8.4%	£0.45	£0.45	£0.45
Total costs with transport (30%)	£6.98	£7.07	£7.18

At first sight the position is straightforward. Labour providers increase their charges, workers get more holiday (or holiday pay as many do not want to take their holiday entitlement) and there is a tiny effect on inflation. But life is not so simple. Every year labour providers struggle to persuade their customers to increase rates to reflect the increase in the minimum wage. It is all too easy for labour users to use labour providers who cut corners as the risk of detection is tiny. The more the add-ons to the minimum wage the more there is a risk of business being driven into the informal economy.

To help minimise this the government must take steps to ensure that employers and labour users understand that the cost of the additional holiday entitlement has to be passed on, and should strengthen the current feeble attempts to bring the informal economy under control.

ALP view

The government has made its mind up so there is little to consult on. The ALP has no objection to the proposal, but wishes to ensure that the government understands the consequences of what it is doing.

Many workers, particularly those working for only a short period (such as the summer or Christmas holiday period), have no interest in taking a period of holiday during their period of employment. They want holiday pay to be rolled into their regular pay. The Government has now prohibited this, causing inconvenience for some workers and their employees. This should be reversed. Accordingly, the answer to question 5 is yes, but this should apply to all holiday entitlement not to a fraction of it. The whole document is written as if the labour force comprises permanent employees in long term jobs. DTI needs to recognise that much of the economy is run on the basis of a very flexible labour market; rigid rules on how holidays entitlement must be taken are out of place in an environment where many periods of employment are counted in weeks rather than years.