

The economic costs and benefits of easing Sunday shopping restrictions on large stores in England and Wales

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Executive Summary

This report presents the results of analysis of the costs and benefits of easing restrictions on times of opening in relation to large stores in England and Wales on Sundays (times of opening are not restricted in Scotland). The analysis is an input to a wider process of consultation and Regulatory Impact Assessment conducted by the DTI.

The current restriction on Sunday trading limits stores over 280m² (3,000 sq ft) from trading for more than 6 hours within the time interval 10am-6pm on a normal Sunday, and from trading at all on Easter Sunday. Smaller stores (and online stores) are not restricted in terms of the times they can trade.

The purpose of the cost benefit analysis is to quantify the national economic welfare impacts of policy change, and to isolate them from changes that may occur irrespective of reform due to ongoing changes in consumer behaviour and in the retail market. Allowance is made, for example, for market growth and the impact of growth in online sales.

Some changes at the sectoral level that one might think have national economic impacts may in fact have very little impact on the economy as a whole. The reason for this is that at the level of the whole economy various negative feedbacks operate which dampen or eliminate sectoral impacts. For example:

- household budget constraints limit the scope for expanded Sunday trading to increase overall retail sales
- labour supply and monetary policy constraints limit the impact of employment changes at the sectoral level on aggregate employment
- the Bank of England's inflation target of 2 per cent implies that price changes in the retail sector are likely to be offset by changes elsewhere in the economy

Finally, secondary market impacts of changes should not necessarily be quantified since these generally represent a redistribution of the costs and benefits of primary impacts rather than additional economic costs and benefits.

The cost benefit analysis focuses on quantifying two impacts of liberalisation. First, the impact of extended Sunday trading on the unit costs of retailers, which in turn can impact on prices and profits. Second, the impact of extended Sunday trading on customer convenience in terms of the ability to coordinate other activities and shopping and the impact on congestion and queuing. The modelling is carried out over a 20 year time horizon which is sufficient to reflect underlying changes in the sector. The net present value of benefits is calculated using the HM-Treasury 3.5 per cent "discount rate" to account for preferences over consumption today relative to consumption in the future. Annualised costs and benefits are also calculated.

Evidence from the retail sector, and comparative information from experience in Scotland (where there is no restriction) and England and Wales is used to calibrate the modelling. Whilst an element of judgement is inevitably involved this is made explicit, and sensitivity analysis to check the robustness of the results of modelling was carried out.

The modelling is in two parts:

- Analysis of the anticipated change in unit costs and prices; and
- Analysis of the anticipated change in customer convenience, proxied by changes in time use.



The impact on unit costs is modelled by assessing the scope to increase sales from existing and new retail space via extended Sunday trading, and by assessing the impact on labour and other operating costs (the cost of premises remains fixed) of such additional sales.

As discussed in detail in the report, the overall sales capacity of large retailers is assumed to increase by 4 per cent from extended Sunday trading, and this is utilised over a 2 year transition period via market growth (it is assumed that there is no overall increase in retail sales due to extended Sunday trading). Labour inputs are assumed to increase in proportion to sales and other operating costs are assumed to remain fixed for the retail sector as a whole. As a result unit costs decline by around 0.6 per cent, and the wider market is also impacted by price reductions over time.

The impact on customer convenience is modelled by assessing the impact on the ability to coordinate activities, the impact on congestion at stores and the possible reduction in convenience stores from extended Sunday trading. Based on survey evidence costs and benefits are calculated assuming that households have a 20 per cent likelihood of shopping at a large store on a given Sunday.

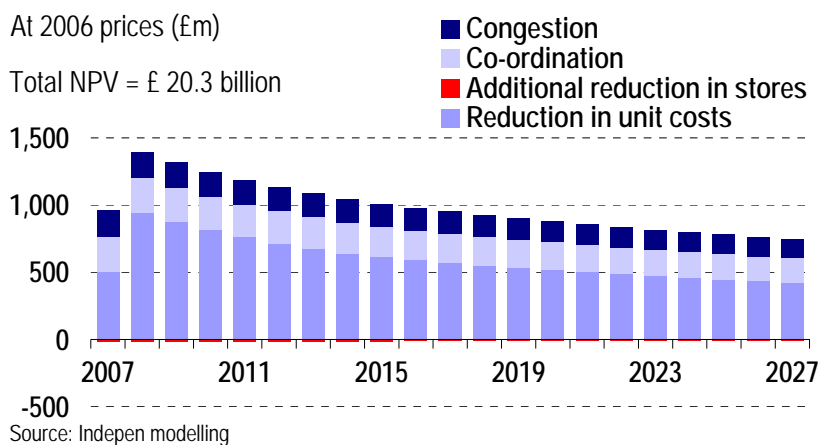
Impacts on convenience are then calculated by valuing consequential time savings. Travel costs are also taken into account, and the cost of an online grocery delivery of £5 is used as a proxy for the possible inconvenience to some where additional convenience stores close. We do not quantify the possible additional benefits to those who choose to switch from higher to lower price stores with extended Sunday trading.

Taking changes in unit costs and convenience into account a discounted flow of net benefits is calculated, which sums to £20.3 billion in present value terms for the full 20 years. On an annualised basis this is equivalent to £1.4 billion per year, or £64.10 per household per year over 20 years. We note that the assumed time costs due to congestion and coordination problems amount to approximately 10 minutes per household that shops on a Sunday per week, or 2 minutes per week across all households.

Present value of costs and benefits

At 2006 prices (£m)

Total NPV = £ 20.3 billion



Each of the assumptions in the model was assigned a range and sensitivity analysis conducted. Allowing all the variables to vary together ("Monte Carlo" analysis) generated a distribution for the net present value. The approximate 95 per cent confidence interval for the net present value based on this distribution is in the range £16 to £28 billion.

Partial liberalisation was also considered on the basis of two scenarios – removal of the 6 hour restriction combined with extension of the allowed trading window to either 10am-6pm or 9am-7pm.



Based on trading patterns, benefits were estimated at 75 per cent and 85 per cent of those from full liberalisation respectively. However, we note that no particular partial liberalisation is likely to be satisfactory for all store types and that fixed closing times, in particular, will cause inconvenience for some customers by artificially cutting off the trading day.

For Easter Sunday the change in capacity and convenience generates greater benefits than those for a single normal Sunday. We estimate that the benefits would be 100-250 per cent greater for benefit categories other than benefits attributable to reduced store congestion (for which we do not assign any benefit). In addition, we note that the costs of errors made by customers who currently falsely assume that some stores – in particular DIY and garden-centres – are open would be avoided.

Possible qualitative and distributional impacts were also identified in relation to impacts on competition, low income consumers, employment and employees, the environment, private health, rural consumers and on the retail sector itself. Distributional impacts were found to be favourable in some instances, for example, low income households spend more of their budget on retail expenditure and would therefore benefit disproportionately from lower prices.

To the extent that extended Sunday trading improves both the price and convenience of shopping at large stores it will attract additional customers to those stores over an extended period of time. This will impact negatively on small stores that are primarily substitutes for large stores, and positively on small stores that are complements to large stores and benefit from additional footfall.



1 Introduction

The Secretary of State asked the Department of Trade and Industry (DTI) to review the pros and cons of further liberalisation of the Sunday Trading laws in England and Wales. The DTI included this initiative in its 'Better Regulation – Draft Simplification Plan'.¹

As part of its review, the DTI commissioned Indepen to evaluate the economic costs and benefits of easing or removing Sunday trading restrictions in England and Wales. The DTI is conducting a separate consultation process seeking relevant evidence and views on all aspects of further liberalisation.

Both aspects of the review will feed into a consultation, accompanied by a Regulatory Impact Assessment, that will set out evidence and information related to the options for easing or removing Sunday trading restrictions.

1.1 Scope of the report

This report examines the economic costs and benefits associated with easing or removing the current restrictions on Sunday trading. The full terms of reference are set out in Appendix A.

In preparing our report we have reviewed a wide range of literature and spoken to a number of individuals and organisations. Our purpose in doing this was to inform the cost benefit analysis rather than undertake a comprehensive consultation process.

1.2 The cost benefit analysis

The purpose of the analysis is to inform the decision about whether or not to ease or remove current restrictions on Sunday trading, by identifying and, where feasible, quantifying the opportunity costs and benefits of the restrictions. The focus is on overall costs and benefits to the economy and on the implications of liberalisation independent of other trends in the retail sector.

We quantify two categories of cost and benefit

- changes in unit costs, and therefore profits and retail prices, from an increase in retail capacity that extended Sunday trading would allow
- changes in congestion and convenience due to the redistribution of demand and elimination of congestion peaks at opening and closing times.

We also consider qualitative and distributional impacts in relation to

- competition in the retail market
- low income consumers
- employment and employees
- small retailers
- private health
- the environment
- rural consumers.

¹ Department of Trade and Industry. November 2005. "Better regulation - draft simplification plan".



We conclude that the impact of liberalisation would on balance be beneficial. Distributional impacts will be the subject of further scrutiny in a Regulatory Impact Assessment that the DTI will conduct if it takes proposals for liberalisation forward.

Arguments concerning various other matters have been advanced for maintaining, or indeed strengthening, the restriction on Sunday trading. These include

- Sunday is the Christian Sabbath and trading should not be permitted on the Sabbath.
- A restriction on Sunday trading is necessary to protect employees from pressure to work on Sunday.
- Collectively, we might prefer a quiet day, even though individually we might choose to shop if we could. Restricting Sunday trading would be a response to a collective action problem.

We have not attempted to evaluate these arguments quantitatively. If they have merit, it would be necessary for Ministers to make judgements as to how their merits compare with the net benefits of liberalisation that we have quantified.

1.3 Sunday trading restrictions

This section

- describes the Sunday Trading Act 1994 as it applies to Sunday trading and working in England and Wales², details the current restrictions and describes the situation in Scotland
- summarises previous analyses of the costs and benefits of Sunday trading

1.4 The Sunday Trading Act 1994

1.4.1 History of reform

The reform of the Sunday trading restrictions began with the Auld Committee in 1983. Auld was appointed by the Home Secretary to examine proposals to amend the Shops Act 1950 with the following terms of reference

“...to consider what changes are needed in the Shops Act, having regard to the interests of consumers, employers and employees and to the traditional character of Sunday, and to make recommendations as to how these should be achieved.”

The Committee considered two main issues: whether trading hours should be the subject of any restrictions at all and whether, if there was a justifiable need for protection, legislation would be able to achieve this.³ The enquiry examined various forms of regulation, including that based on the size of a shop. This was rejected on the grounds that it was “*bound to be arbitrary*” and that the “*enforcement of restrictions based on size would be impracticable.*”

The Committee concluded as follows.

- The benefits of deregulation, particularly in terms of providing retailer flexibility and customer convenience, would outweigh any adverse effects.
- There was no reason to retain the existing law and specifically, that there was “no interest, or combination of interests” that justified the retention of such regulation.

² In Scotland hours of Sunday trading are not regulated.

³ Committee of inquiry into proposals to amend shops act. November 1984. “Late night and Sunday opening: report of the committee of inquiry into proposals to amend the shops act.”



- No form of regulation could be considered fair, simple or readily enforceable. For those reasons, the Committee recommended *“the abolition...of legal restrictions on hours which shops may be open to service customers”* noting that they were *“satisfied that in the long run the impact of deregulating trading hours on our economic and social life would not be so great as to be readily distinguishable from changes that are already taking place”*.

Following the recommendations of the Auld Committee, the Government brought forward a Bill to abolish the existing restrictions. This was defeated in 1985 at Second Reading in the House of Commons.

Between 1988 and 1992, legal appeals examined whether the restrictions on Sunday trading infringed Article 30 of the European Commission Treaty. Some of these were referred to the European Court of Justice. In 1987, the High Court confirmed that the purpose of the legislation was “to ensure that so far as possible, shopkeepers and shop assistants did not have to work on Sundays” rather than to restrict Sunday trading as such.

In 1993, the Government responded to ongoing challenges by outlining four options for reform, ranging from the complete restriction of trading (with the exception of very small shops selling a limited range of goods) to total deregulation. The purpose of the proposed reforms was to shift employee protection away from a requirement to close all shops towards individual employee protection. The consultation document noted that the Government saw a clear distinction between the opening hours of shops on the one hand and employee protection on the other. A free vote resulted in the adoption of proposals on opening hours and employee protection. These came into effect under the Sunday Trading Act 1994. At the same time, the Deregulation and Contracting Out Act 1994 abolished all restrictions on trading hours between Monday and Saturday.

1.4.2 Detailed restrictions

1.4.2.1 Trading hours

The Sunday Trading Act 1994 includes provisions limiting the opening hours of large shops on Sunday to up to six continuous hours between 10am and 6pm. A large shop is one with an internal floor space greater than 280m² or 3,000 square feet. The Act defines internal floor space as excluding any part of the shop that is used neither for serving customers in connection with the sale of goods nor for the display of goods. It excludes, for example, storage space and staff areas. If the internal floor space is less than 280m² then it is not subject to Sunday trading restrictions.

As well as complying with restrictions on trading hours on Sundays, large shops are prevented from opening on Easter Sunday and Christmas Day. The restrictions on trading on Easter Sunday became more comprehensive in some instances following reform in 1994. Garden centres, for example, had previously been able to trade a range of goods on Easter Sunday but can no longer do so. Restrictions on Christmas day trading are covered by the Christmas Day Trading Act and this is not considered as part of this review.

1.4.2.2 Employee protection

The Sunday Trading Act 1994 gives shop workers in England and Wales, with the exception of those employed specifically to work on Sunday only, the right

- not to be dismissed for refusing to work on Sunday.
- not to be selected for redundancy for refusing to work on Sunday.



- not to suffer any detriment for refusing to work on Sunday, where detriment could include denial of overtime, promotion or training opportunities.

These rights extend to all shop workers whose contracts of employment require them to work on Sunday or who are asked to do so. They apply irrespective of age, length of service or hours of work. Under the Act, employees can opt out of Sunday working by giving their employer three months notice in writing, after the expiry of which they will no longer be obliged to work on Sunday. Employees can give up their right not to work on Sunday by giving their employer a written 'opting in' notice.

Our understanding is that there are no proposals to change the legislation relating to employee protection and we were not asked to examine it as part of this work.

1.4.2.3 Exemptions from trading hours restrictions

The Sunday Trading Act 1994 regulates shop trading hours; it does not regulate the sale of particular goods, such as alcohol, which are subject to separate legislation, street markets or car boot sales, which are subject to local planning legislation.

Table 1.1 summarises the types of large shop that are exempt from restrictions on Sunday trading.

Table 1.1 Exemptions from the Sunday Trading Act 1994

Farm shops , where the trade or business carried on consists wholly or mainly of the sale of produce from that farm	Shops, such as off-licences that sell only or mainly alcohol
Shops that wholly or mainly sell motor or cycle supplies and accessories	Shops in airports and railway stations
Registered pharmacies that do not sell goods other than medicinal products, medical and surgical appliances	Any petrol filling station (also referred to as forecourt shops)
Shops that only supply goods to aircraft or vessels on arrival, or immediately before departure from, a port, harbour or airport	Exhibition stands selling goods during the course of an exhibition

The Act includes a provision for shops occupied by 'persons of the Jewish religion' who observe the Jewish Sabbath and close their shops on Saturdays, exempting them from the restrictions placed on Sunday trading hours regardless of shop size.

In November 2005, the Licensing Act 2003 allowed flexible opening for premises used for the supply of alcohol, with the potential for up to 24 hour opening, seven days a week.⁴

1.4.2.4 Other restrictions to protect amenity

The Sunday Trading Act 1994 includes restrictions relating to loading and unloading at large shops on Sunday morning. Specifically, loading and unloading are not permitted before 9am except where the occupier of the large shop has the consent of the local authority for the area in which the shop is located. A local authority is required to grant consent unless it considers that loading or unloading before 9am would cause undue annoyance to local residents.

1.4.3 Scotland

The Sunday Trading Act 1994 does not apply to Scotland. Traditionally there has been almost complete freedom to trade on Sundays in Scotland and the practice is now widespread.

⁴ http://www.culture.gov.uk/alcohol_and_entertainment/licensing_act_2003/



Employee protection in Scotland is covered by the Sunday Working (Scotland) Act 2003, which provides similar protection to that offered under the Sunday Trading Act 1994.

The impact of Sunday trading in Scotland is discussed in Section 3.2.4.

1.5 Previous cost benefit studies

Two previous studies have considered the costs and benefits of liberalising Sunday trading. They were undertaken at a time when no trading was permitted for large stores, although by the time of the second study Sunday trading was widespread in contravention of the law. The first study was in 1983-1984 by the Institute of Fiscal Studies (IFS 1984) as part of the Auld Committee Inquiry and the second study was by London Economics (1993) for the Home Office prior to the commencement of the Sunday Trading Act 1994. Their findings are summarised in Appendix B.

The IFS study concluded that, in the long run, taking account of effects on retailers' fixed and variable costs, the overall effect of Sunday trading would be to reduce the aggregate costs of the retail sector by around 2 per cent, equivalent to about 0.6 per cent of retail turnover.



2 Context

“Underlying the rapid changes in the distribution sector are a number of factors, foremost among them the changes in consumer demand patterns. Consumers have become more affluent, have changed life-styles and values, involving moves towards more specialised services and goods. Demographical factors, such as an ageing of the population and smaller households, have also contributed. Furthermore, the higher workforce participation of women has generated demand for time-saving products and for opportunities to shop outside normal working hours.” OECD, 1997⁵

2.1 The current debate

When the issue of Sunday trading has been debated in the past, the discussion was mostly about claims that allowing it would incur social costs. For example, the Keep Sunday Special Campaign claimed that Sunday trading would have a negative impact on families (particularly those of employees) and communities.

More recently, attention has focussed on the potential impact on small shops of ongoing changes in the market and of extended Sunday opening times for large stores. In February 2006, the All-Party Parliamentary Small Shops Group released a report titled “High Street Britain: 2015” which expressed concern about long-term prospects for the small retail sector in the UK.⁶

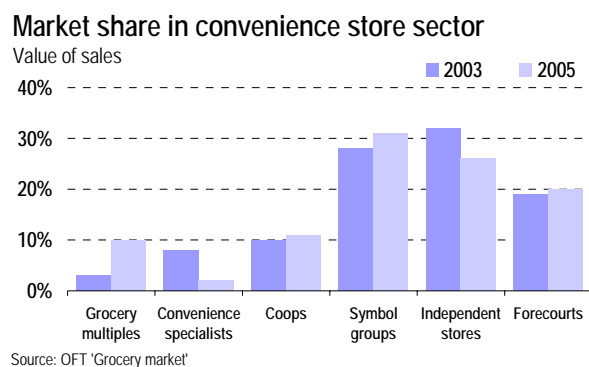
2.1.1 Small shops versus independent shops

While concern has focussed on the viability of small shops, elements of the small shop segment of the retail market have grown. The segment that has contracted is not so much small shops *per se*, but independent small shops in the convenience sector. The convenience sector is arguably the most relevant in assessing the impact of easing or removing Sunday trading restrictions as it is the sector in which small stores tend to open for extended hours.

Most small specialist stores do not open for extended hours, although this does not mean that they will not be affected by extending Sunday trading. Shops, including small shops, that are complementary to large retailers or operate in shared spaces, such as shopping malls, might benefit from extended opening by large stores since footfall would be higher.

Figure 2.1 shows changes in market share in the convenience store sector between 2003 and 2005.

Figure 2.1



⁵ Dirk Pilat. 1997. “Regulation and performance in the distribution sector”. OECD Economics working paper, No. 180.

⁶ All-Party Parliamentary Small Shops Group. February 2006. “High Street Britain: 2015”.



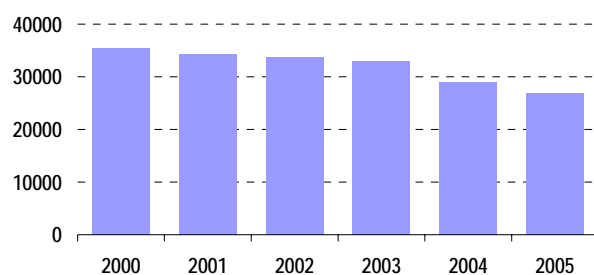
Whilst the number of independent shops has been declining, some have joined symbol groups or co-ops or have become affiliated with another retailer in some other way. Affiliation with a symbol group is attractive for the independent sector as it enables them to “*tap into the advantages of scale in what is a competitive market.*”⁷ For example, in 2005, symbol groups recruited approximately 430 shops.⁸ Between 2001 and 2005, the number of independent affiliates grew by 73 per cent. This accounts for some of the 22 per cent decline in independent stores over the same period.

In its decision to make a market investigation reference of the grocery market, the OFT noted a net loss of 2,760 independent stores between 2001 and 2005, a rate of almost 700 per annum.⁹ Figure 2.2 shows the decline in non-affiliated independent stores between 2000 and 2005.

Figure 2.2

Non-affiliated independent stores

Number of stores



Source: IGD 'Convenience Retailing 2005'

The decline in non-affiliated independent stores is not exclusive to England and Wales. In a paper on the decline in the British small shop independent retail sector, Coca-Stefaniak *et al* (2005) noted that a similar trend could be observed in a number of other countries including the United States and Spain.¹⁰

It is not clear whether the introduction of Sunday trading for large shops in 1994 contributed to, or accelerated, the decline in small independent shops although evidence submitted by small retailers suggests that their sales on Sunday were affected. For example, one small retailer submitted that trade on Sunday had declined by 30 per cent between May 1994 and April 1995 and others said that many small shops no longer opened on Sunday as a result.¹¹ Independent retailers acknowledge that Sunday trading is not the key issue affecting small shops, but their concern is that easing or removing Sunday trading restrictions may lead to a ‘tipping point’¹² being reached resulting in the widespread loss of small shops.

Changes in the convenience store market are discussed in more detail in Section 2.3.3, while an analysis of the impact of easing or removing restrictions on Sunday trading on small shops is in Section 6.7.

⁷ IGD. May 2005. “Convenience facts you need to know.” At www.igd.com

⁸ IGD. “Convenience retailing 2005”.

⁹ Office of Fair Trading. March 2006. “Grocery market: proposed decision to make a market investigation reference.”

¹⁰ Coca-Stefaniak, Hallsworth, Parker, Bainbridge and Yuste. 2005. “Decline in the British small shop independent retail sector: exploring European parallels.” *Journal of retailing and consumer services* 12 (327-371).

¹¹ Small business focus group, February 2006.

¹² All-Party Parliamentary Small Shops Group. 2006. “High Street Britain 2015”. House of Commons, p. 6.



2.1.2 Vulnerability of employees

A key issue in relation to the Sunday Trading Act 1994 is the protection of employees. The potential impact on employees is an issue that has been addressed by stakeholders such as the Keep Sunday Special Campaign and the shop workers union, USDAW. Some stakeholders are concerned that extending trading hours for large stores on Sunday will force employees of these stores to work longer hours and that this will prevent them from participating in family and community events.

It is not clear that concerns in relation to employee protection should focus on large stores. The large retailers claim that they offer flexible terms of employment and match Sundays work with employees who wish to work on Sunday. In any event, restrictions on Sunday trading harm the interests of groups of potential employees who do wish to work on Sundays, including many students and single parents.

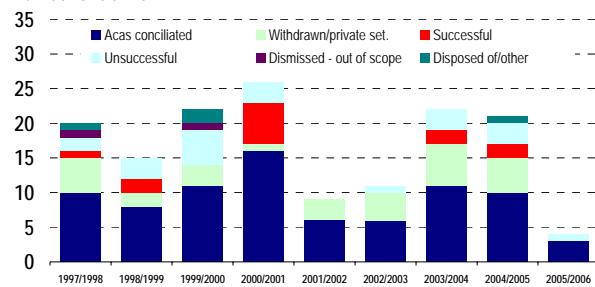
Submissions by employees suggest that concerns about being forced to work on Sundays remain and between 1997 and 2005 176 cases came before Employment Tribunals in relation to being unfairly dismissed or suffering a detriment for refusing to work on Sunday.

Figure 2.3 illustrates the outcomes of 150 of those cases, which excludes 19 cases for which no outcome was allocated and 7 cases that were brought to the tribunal prior to 1997/1998. Of these, almost 9 per cent were successful and 54 per cent were settled in conciliation. Almost 14 per cent of cases were unsuccessful and another 19 per cent were withdrawn or settled privately.

Figure 2.3

Employment tribunals Sunday trading act claims

Number of claims



Source: Employment tribunals service

Note: Excludes 19 cases for which no outcome was allocated and 7 cases prior to 1997/1998

Retail employees have unique legislative protection against being compelled to work on Sunday unless they are specifically employed for this purpose. In addition, we note that specific protections apply to shop floor workers only. Other employees in retail, and all employees in other sectors, are subject to general employment protection laws only. A focus on the hours of work of the employees of large retailers as opposed to their overall conditions appears misplaced. The benefits accruing to employees in one large store compared to small stores was noted by USDAW in a Retail Week article, where an USDAW national officer stated:

"In a debate that seems to centre on the interests of customers and suppliers, the one group to be forgotten are staff. There is no comparison between the terms and conditions that the average corner shop worker enjoys and what Tesco staff enjoy – significantly better pay,



better pension rights and the protection of a trade union, which most corner shops don't encourage."¹³

2.1.3 Large shops

As well as the concerns about the potential impact of relaxation on small shops, there is a broader concern about *"the dominance by larger shops and more multiple chains..."*¹⁴

This concern typically relates to the grocery sector. However, a number of other types of large shop are affected by the restrictions contained within the Sunday Trading Act. Such large shops include those that require large display areas, such as garden centres and hobby stores. Some of these stores are independently owned or belong to a chain comprised of small and large shops (or small shops within large shops), meaning that some shops operate without restriction even though the products sold are the same.

Table 2.1 gives examples of large stores other than supermarkets with restricted Sunday trading.

Table 2.1

Store	Description
Haskins Garden Centres	A family-owned business that has operated in the UK since 1882. Four garden centres located in Dorset, Southampton, Angmering and Copthorne.
Paperchase	65 stores across England and Wales, including 44 located within bookstores or department stores (and therefore subject to restrictions) and 21 stand alone shops (five of which are located at Railway stations and therefore exempt from restrictions, size of remaining 16 is unknown).
Waterstones	Bookseller with almost 200 high street and academic campus shops across the UK, Ireland and Europe. Flagship branch on Piccadilly in London is the biggest bookstore in Europe.
HMV	Music store with around 200 shops and 1 million square feet of trading space, giving an average size of 5,000 square feet.

A key difference between these types of shops and those in the grocery sector is that consumers tend to have less alternative outside the restricted trading hours, although there are some small specialist stores in these market segments. They also tend to be associated with leisure activities, such as gardening, DIY and craft, and rely on weekend trade that coincides with the leisure time of its customers.

Before the Sunday Trading Act 1994, a number of large garden centres chose to open on Sunday within the constraints of the relevant local authority. While the types of products these centres were allowed to sell was restricted in terms of detailed product lines, Easter Sunday was the biggest trading day of the year.

2.2 Relevant aspects of the retail sector

In this section, we consider the retail sector relative to the economy as a whole before considering the relationship between changes in the sector and changes in the economy in Section 2.3, and the impact on the sector and consumers of the liberalisation of Sunday trading in Section 3.

¹³ Retail Week. January 6, 2006. "USDAW backs Tesco in c-store war."

¹⁴ All-Party Parliamentary Small Shops Group. 2006. "High Street Britain 2015". House of Commons, p. 6.



2.2.1 Sales and value added

Figure 2.4 shows that the value of retail sales as a share of GDP has been declining with the value of both food and non-food expenditures falling. Price deflation in the retail sector, and the growing share of disposable income going on other goods and services including housing services account for this. Figure 2.5 shows that the value added contribution of retail and wholesale trade to GDP has been increasing over time, though with declines after 1993 and 2001.

Figure 2.4

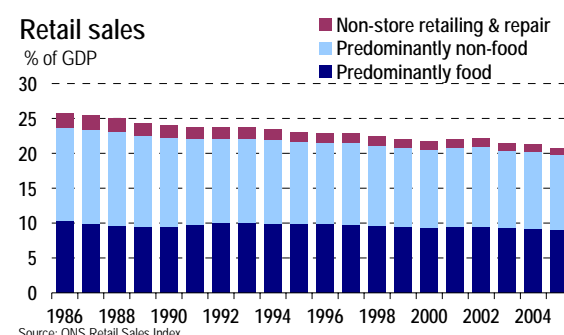
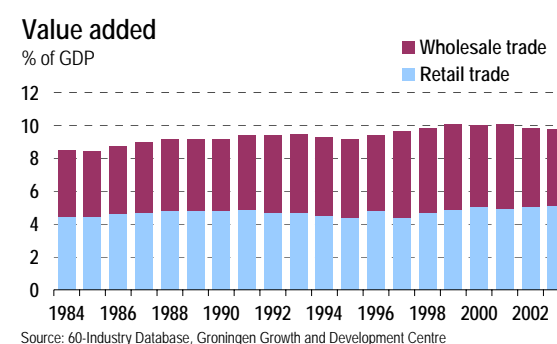


Figure 2.5



The contribution of retail trade to GDP is significantly lower than retail sales as a proportion of GDP (around 5 per cent versus 20 percent) since most of the value of retail sales is accounted for by the cost of goods for resale which do not contribute to value added produced by the retail sector itself.

2.2.2 Employment and labour productivity

Figure 2.6 shows that employment in retail trade makes up around 12 percent of total employment, much higher than the sector's share of GDP. Figure 2.7 shows that total employment in the sector has risen since 1984.

Figure 2.6

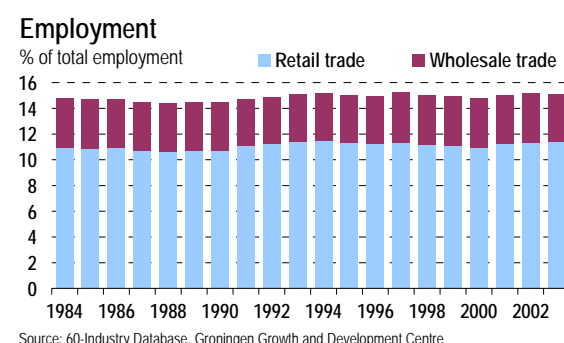
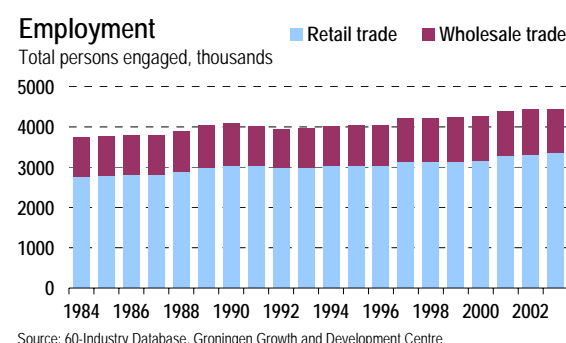


Figure 2.7



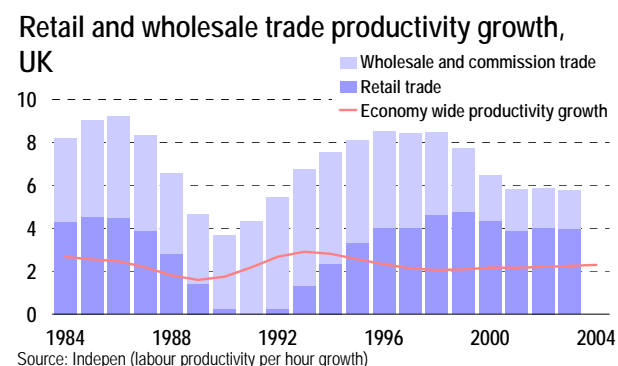
Over time the sector has experienced strong labour productivity growth with increasing volumes accommodated with a more or less constant input of labour (measured here in terms of hours worked).

Figure 2.8 shows labour productivity growth per hour worked in the retail and wholesale trade sectors relative to the rate of economy wide labour productivity growth on a per hour worked basis. The



sector has delivered productivity gains substantially in excess of the economy wide average.¹⁵ Note that the measure of productivity illustrated here is based on value added rather than sales per employee.

Figure 2.8



2.2.3 Retail value, volumes and consumer prices

Figure 2.9 shows that the retail sector has seen a growing divergence between volume growth (the quantity of things sold) and real value growth (the value of sales in current money terms) relative to real GDP growth. Figure 2.10 shows the same relationship with the data smoothed using the Hodrick-Prescott Filter to show the underlying trends more clearly. The value of retail sales growth is consistently lower than real GDP growth when the GDP deflator is applied to both series.

Figure 2.9

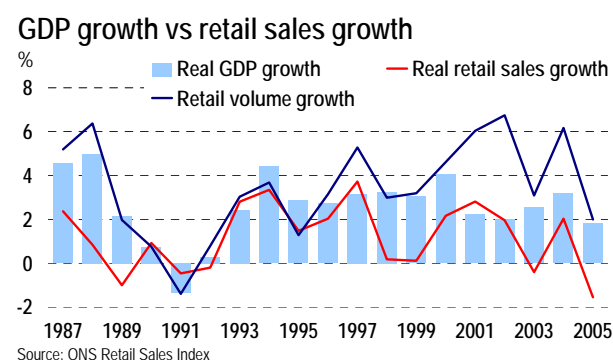


Figure 2.10

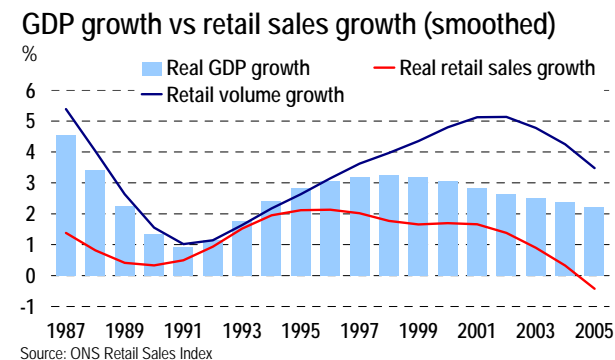


Figure 2.11 shows the decline in retail sector prices for food and clothing and footwear relative to the RPI (other goods and services have risen in price relative to the RPI, for example, housing).¹⁶ Improvements in productivity and reductions in input prices for goods for resale have delivered real savings for consumers relative to inflation.

¹⁵ Trend calculated by Indepen using Hodrick-Prescott Filter, annual factor 6.25. Data from 60-Industry Database, Groningen Growth and Development Centre.

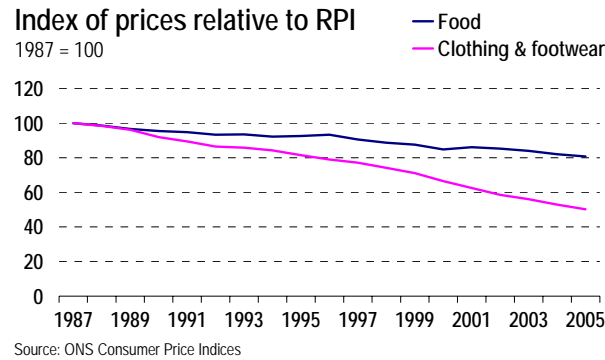
¹⁶ For clarity of presentation we have shown only food and clothing and footwear.

Household goods tracks very closely to food and includes furniture, furnishings, electrical appliances, other household equipment, household consumables and pet care.

Leisure goods tracks very closely to clothing and footwear and includes audio-visual equipment, CDs and tapes, toys, photographic and sports goods, books and newspapers, and gardening products.



Figure 2.11



2.3 Key changes since previous cost benefit analysis

In 1984, the Auld Committee noted¹⁷ “*the economic background of retailing today is very different from that which prevailed when the existing restrictions on shop opening hours were introduced.*” Similarly, before the commencement of the Sunday Trading Act 1994, in 1993 London Economics noted that the shape of UK retailing had changed substantially since the Auld Committee report.

Since that time, further significant changes have occurred in the following areas.

Changes in consumer behaviour

- Increased Sunday trading within existing constraints, beyond the level anticipated in previous analysis
- Rapid growth in access to broadband and in online retailing
- Rising real incomes and an increasing premium on time and convenience

Employee and employer behaviour

- Growth in part time work and female labour force participation including an increase in the number of working mothers
- A reduction in the wage premium paid to employees who work on Sundays

Changes in the retail sector

- Growth in the convenience store market and in niche market segments
- Growth in online retail models
- Ongoing labour productivity growth (discussed in Section 2.2.2)
- Pressure on capacity in some sectors due to market growth and planning constraints on the development of new stores - in contrast there was substantial excess capacity in the retail sector at the time of the last comprehensive cost benefit analysis in 1993

We elaborate on a number of these points in the following sections.

¹⁷ R. Auld, L. Archibald and F. Cairncross. November 1984. “The Shops Acts: Late-night and Sunday opening”. Report of the Committee of Inquiry into Proposals to Amend the Shops Act.



2.3.1 Changes in consumer behaviour

2.3.1.1 Growth in Sunday trading

In 1993, London Economics estimated that the full deregulation of Sunday trading hours would result in a shift of sales such that Sunday would account for nearly 6 per cent of all trade. They also estimated that the Shopping Hours Reform Council proposal, which most closely aligns to the restrictions put in place by the Sunday Trading Act 1994, would result in Sunday accounting for approximately 4.4 per cent of retail sales.

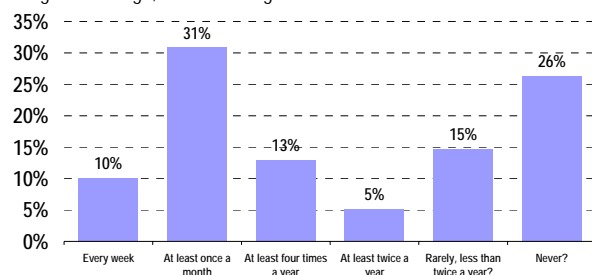
Previous estimates regarding the potential extent of Sunday trading proved conservative relative to what has occurred. In 2003, the Department for Transport estimated that 10 per cent of shoppers made their main shopping trip on Sunday in 1999/2001.¹⁸ In addition, 8 per cent of food shopping was on Sunday in 1999/2001. Recent estimates indicate that up to 15 per cent of shopping trips are made on Sunday and retailers report that Sunday is now the second or third busiest day of trading,¹⁹ while Saturday is the busiest, highlighting the importance of the weekend for shoppers.

The December 2005-January 2006 ONS omnibus survey included a series of questions on Sunday trading. The survey found that 13 per cent of adults aged 16 and over shop at supermarkets on Sunday every week, while 7 per cent shop at other large stores every Sunday. A significant number of those surveyed responded that they shop on Sundays, albeit with less frequency. Figure 2.12 shows an average of the survey results for all large stores.

Figure 2.12

Frequency of Sunday shopping - all large stores

Weighted average, % of adults aged 16+



ONS omnibus survey Dec-Jan 2006

2.3.1.2 Growth of internet sales

Since 2000, the UK has seen a significant increase in the number of households who are able to access the internet, whether at home, at work or at some other place. The opportunity to purchase goods and services online is beginning to change the market in fundamental ways:

- Internet sales are increasing the number of effective competitors in a given geographical market independent of physical presence, and may also be promoting national rather than local pricing strategies
- Purchase and delivery can occur independent of existing restrictions on Sunday trading making the restriction increasingly irrelevant for some goods and services
- Internet sales increase diversity and choice independent of what the High Street offers

¹⁸ Department for Transport. January 2003. "Travel to the shops in GB – Personal travel factsheet 6".

¹⁹ Tesco's company secretary and corporate affairs chief, Lucy Neville-Rolfe, told MPs on the Commons All-Party Small Shops Group: 'Sunday is now our third busiest day of trading. Society has changed.'



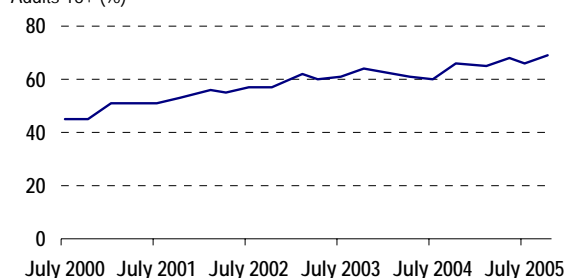
Growth in the internet and in online sales is therefore beginning to change the context within which decisions regarding Sunday trading should be considered.

Figure 2.13 illustrates the increase in internet access for adults (16 years and over) from approximately 45 per cent in July 2000 to around 70 per cent in July 2005. Figure 2.14 shows the rapid growth in household broadband connections calculated using OECD data on broadband penetration and an average household size for the UK of 2.3. Broadband provides a fast always on service, thereby providing a much improved consumer experience when online shopping.²⁰

Figure 2.13

Internet Access

Adults 16+ (%)

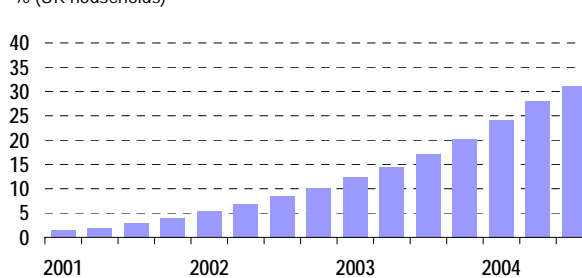


Source: ONS, National statistics omnibus survey

Figure 2.14

Household broadband connections

% (UK households)



Source: OECD Broadband Statistics

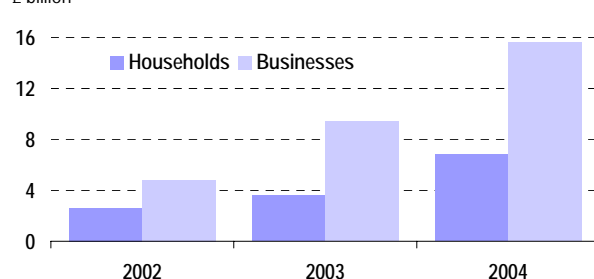
Online shopping and delivery in the grocery market is now available to a large proportion of households in the UK. For example, the Tesco grocery home shopping service now reaches 98 per cent of the UK.²¹ A typical charge for online grocery deliveries is around £5 (though large orders do not incur a charge from some online retailers).

Office of National Statistics data indicate that 61 per cent of adults had bought or ordered on the internet goods, tickets or services in the three months prior to being surveyed.²² Figure 2.15 illustrates growth in internet sales between 2002 and 2004.

Figure 2.15

Internet sales - wholesale and retail trade

£ billion



Source: ONS, ICT activity of UK businesses 2004

²⁰ OECD. December 2005. Broadband connections. <http://www.oecd.org/dataoecd/61/1/35527611.xls>

²¹ Tesco. "Annual Review and Financial Statement 2005." Page 28. http://www.tescocorporate.com/images/Tesco_review.pdf

²² ONS. January 2006. "Internet access".



The increased prominence of online shopping was particularly evident in the 10 weeks leading up to Christmas 2005, where consumers spent £4.98 billion online compared to £3.3 billion in the previous year.²³ Reports noted that grocery retailers had reached capacity for their online delivery services.²⁴

A key aspect of online retail is that it is accessible by customers 24 hours a day, seven days a week. Traditional retail stores that have an online presence can still provide customers with information and accept orders for products irrespective of regulations on retail trading hours.

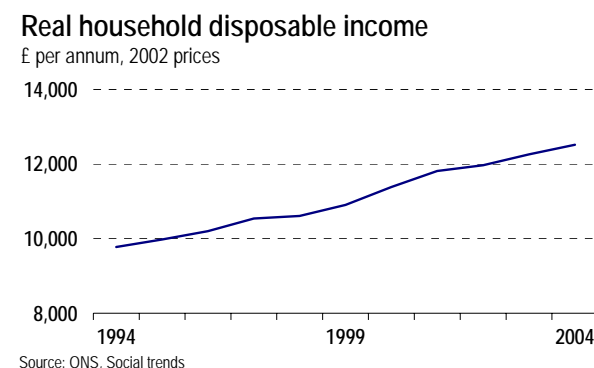
Finally, we note that online sales increase diversity and choice independent of what the High Street offers. For example, in the book and music markets a large range of goods and services is now available to consumers, bringing benefits additional to those from lower costs and increased competition. A US study found that the increased product variety of online bookstores enhanced consumer welfare by \$US731- \$1,030 million, between 7 and 10 times as much as the gains from lower prices.²⁵

In our cost benefit analysis we assume that internet sales will continue to grow and that the net present value of the benefits from liberalisation of Sunday trading will be diminished as a result. However, we also note that the restriction on Sunday trading distorts competition between online and traditional retailing, and that removal of this distortion would generate benefits that we have not quantified. The growth in online sales will act to reduce the potential impact on choice and diversity of a loss of retailers on the High Street, and has arguably already led to an overall increase in choice and diversity for consumers.

2.3.1.3 Incomes and expenditure

Since 1994, real household disposable income in constant price terms has risen from an average of just below £10,000 per annum to over £12,500 per annum, an increase of 28 per cent. This increase is illustrated in Figure 2.16.

Figure 2.16



The pattern of consumer expenditure has changed as well. Consumers have redistributed expenditure, most notably reducing expenditure on retail and increasing expenditure on leisure activities. The changes are shown in Figure 2.17.

²³ BBC News. 20 January 2006. "Festive boom for online shopping."

²⁴ BBC News. Ibid.

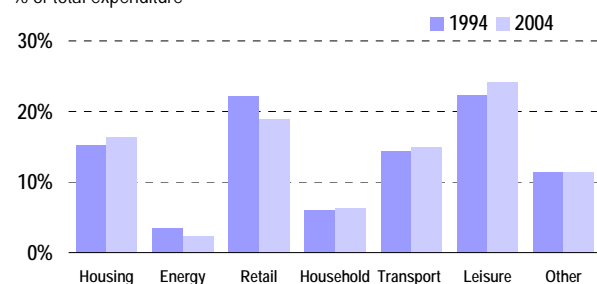
²⁵ Brynjolfsson, Hu and Smith. November 2003. "Consumer surplus value in the digital economy: estimating the value of increased product variety at online booksellers." *Management Science*. Vol 49, no 11.



Figure 2.17

Household expenditure

% of total expenditure



Source: ONS, household final consumption expenditure

While changes in real income have impacted on expenditure patterns, rising incomes also have implications for how consumers value their time, which is discussed in more detail in Section 2.3.1.4 below.

2.3.1.4 Value and use of time

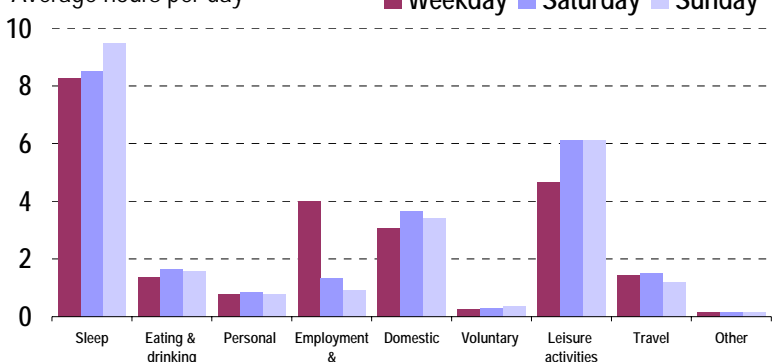
As income rises, the opportunity cost or value of time also increases.²⁶

There is a noticeable difference in the way consumers use their time on weekdays and at the weekend. Figure 2.18 shows that, in average, consumers spend more time at the weekend on sleep; eating and drinking; and leisure activities. Consumers also spend more time at the weekend on domestic activities, which include childcare and shopping.

Figure 2.18

Time spent on activities

Average hours per day



ONS, 'Time use survey'

The use of time at the weekend has been significantly influenced by changes in working patterns, specifically an overall increase in the levels of employment for many demographic groups. Full-time employees are restricted in the time they have available to shop. The importance of Sunday trading for full-time employees is reflected in the percentages of food shopping conducted by those employees on Sunday. The Department of Transport study found that the results of its Sunday

²⁶ Boardman et. al. 2006. "Cost-benefit analysis: concepts and practice." Prentice-Hall.



shopping survey were different for full-time workers, of whom 15 per cent did their shopping on Sunday.

Figure 2.19 shows the change in unemployment rates for the UK between 1994 and 2004, indicating that there has been an overall decrease in unemployment. Figure 2.20 shows that since 1994 there has also been a considerable increase in the number of households with all members of the household working, as well as the number of households with two working parents.

Figure 2.19

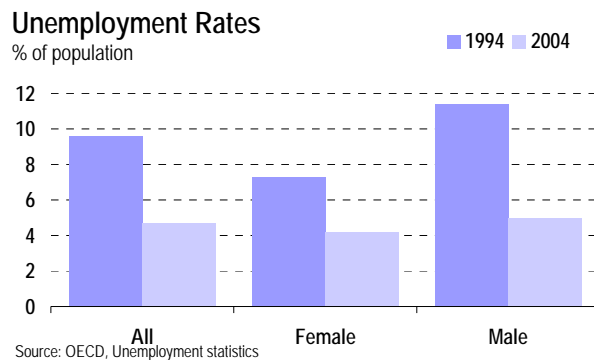
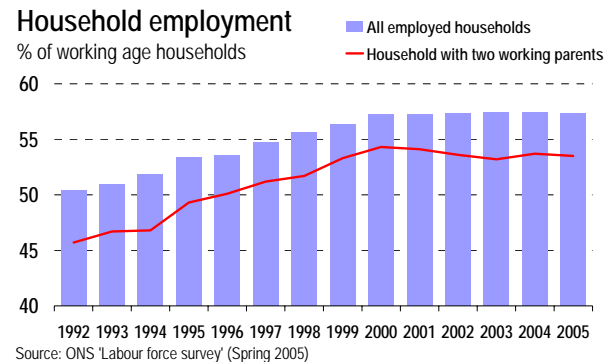


Figure 2.20



The rise in employment rates and the increase in households where all working age members work, suggests that there is a corresponding reduction in the time available to perform activities outside employment during the working week.

In addition, between 1995 and 2005, the employment rate of married or co-habiting mothers rose from 66.1 per cent to 71.4 per cent. During the same period, the employment rate of lone parents (although no distinction is made between male and female) increased from 42.3 per cent to 55.5 per cent. Anecdotal evidence also suggests that working mothers are more likely to be able to attain free child-care at the weekend from, for example, other family members or friends. This reflects the decline in time available to mothers to shop during the week and increases their dependence on weekend or online shopping (not to mention weekend employment opportunities).

The issue is not necessarily that consumers have less time available, although that is a common perception, and a US study found a significant increase in leisure time in every decade over the past 40 years.²⁷ Rather, the issue is when people have spare time and their preferences in relation to weekend shopping.

The structure of the labour force has changed significantly since the time when previous analyses of the costs and benefits of extended Sunday trading were undertaken. Consumers in England and Wales are now more reliant on being able to shop outside standard working hours and at times that are more convenient to them.

There are a number of implications of the increased value consumers place on their time, the shifting constraints on their available time and changing preferences, in particular:

- Movement back towards convenience shopping, where households do more 'top-up' shopping during the week
- Increase in demand for shopping at the weekend

²⁷ Aguiar and Hurst. January 2006. "Measuring trends in leisure: the allocation of time over five decades." Working paper 06-2, Federal Reserve Bank of Boston. <http://www.bos.frb.org/economic/wp/wp2006/wp0602.pdf>



A number of surveys have sought to determine consumer demand for additional trading hours on Sunday. A selection of these are summarised in Table 2.2

Table 2.2: Results of opinion surveys

Survey (date)	Method	Results
Deregulate consumer poll (April/May 2005)	900 consumers across six shopping centres	56 per cent were in favour of increase Sunday trading hours for the shopping centre they were interviewed at.
Retail week magazine poll (June 2005)	1,000 consumers surveyed over a weekend by telephone	53 per cent thought shops should be allowed to open for longer if they wanted to 58 per cent said that retailers should be able to open when they want
Deregulate café and restaurant survey (October 2005)	38 cafés and restaurant owners/managers	85 per cent agreed that large shops should be allowed to open on Sunday without restriction
Association of convenience stores (November 2005)	1,000 consumers	28 per cent would like bigger stores such as ASDA and Tesco to open for longer hours on Sunday
USDAW (November 2005)	900 consumers	35 per cent thought that large shops should be able to open for longer than six hours on a Sunday
Keep Sunday special (2004)	Two surveys carried out in 2004 and 2005	71 per cent of those surveyed would not be bothered if all shops except local convenience stores were shut on Sunday 67 per cent of those surveyed do not think that large shops should be able to open for longer than six hours on Sunday

Consumer's actual response to changing trading hours may differ from the results of surveys conducted prior to the change. A study in Germany found that, while surveys indicated a lack of demand for extended shopping hours, consumer behaviour following the introduction of longer trading hours contradicted this.²⁸

"...consumers who may initially be reluctant to embrace longer retail hours for a variety of reasons develop an appreciation for the time utility offered by expanded hours of operation in a relatively short period."

The different methodology and approach taken by these surveys (including phrasing of questions) prompted the inclusion of questions relating to Sunday shopping in the December 2005-January 2006 ONS Omnibus survey. While the results of the survey are yet to be published, it did consider changes to shopping behaviour in the event that trading hour restrictions were removed and found that between 21.5 and 23 per cent of adults aged 16+ would alter their shopping behaviour depending on the type of store (that is, supermarket or other large store). Of these, the majority would prefer to shop later on a Sunday.

²⁸ Grunhagen, Grove and Gentry. January 2002. "The dynamics of store hour changes and consumption behaviour: results of a longitudinal study of consumer attitudes toward Saturday shopping in Germany." European Journal of Marketing, Vol 37, No 11/12.



2.3.2 Changes in employee and employer behaviour

2.3.2.1 Reduction in Sunday wage premium

The Institute of Fiscal Studies (1984) assumed that employees would receive a premium of 2.5 times the standard weekly wage. London Economics (1993) assumed a Sunday wage premium, depending on turnover and the retail sector concerned, which varied from 1.19 times the standard wage to twice the standard wage.

Since then, there has been a reduction in Sunday premiums, as a report by Incomes Data Services²⁹, summarised in Table 2.3, shows. In some instances the removal of the Sunday wage premium has been accompanied by an increase in the standard wage rate or the introduction of other employee benefits. We expect this trend to continue, particularly as growth in the level of the minimum wage increases the incentive to reallocate expenditure on the Sunday premium to wage levels generally.

In our analysis we assume that the Sunday premium is lower than it was a decade ago, and assume a central case premium of 125 per cent (1.25 times or $T+1/4$). The fact that the premium is lower increases the benefits attributed to cost reduction from extended Sunday opening, and provides an additional incentive for retailers to open for longer hours on Sunday if Sunday trading is liberalised.

²⁹ Incomes data services Ltd. 2006. "Pay and conditions in retail 2005/06." www.incomesdata.co.uk.



Table 2.3 Sunday wage rates – 1994 and 2005

Company	1994 (where applicable)	2005
Argos	-	T+½
Asda	2T	T
B&Q	+ 19% on basic pay	T+½
Boots	2T	T+½
Budgens	-	T
Comet	-	T+½
Costco	-	T+½
Dollon & Aitchison	-	2T
Dixons	-	T
Gap	-	T+½
Greggs	2T	T
House of Fraser	-	T+ 1/3
HMV	-	2T (when worked as overtime)
Hoopers	-	2T
Iceland	-	T
John Lewis Partnership	2T	T+½
Kwik Save	T+½ (2T before 1992)	T+½
Littlewoods	T+½	T
Mackays Stores	-	T+½
Makro Self-Service Wholesalers	-	T+½
Marks & Spencer	2T	T+½
Monsoon Accessorize	-	T
MFI Furniture Centres	2T	T
Morrisons	T + 1/5	T+½
Next Retail	-	T+¼ (staff)
Retail Co-ops	2T	T
Sainsbury's	T+93%	Different band rates
Selfridges	-	T
Signet	-	T+½
Somerfield	T+½ (2T before 1992)	T+½
Specialty Retail Group	-	T+½
Tesco	2T	T+½
Thresher	-	T+1/4
Waitrose	2T	T+½
Waterstones	T+£2.13	T
WH Smith	2T	2T
Wickes	-	T
William Hill	-	T+½
Woolworths	T+½	T



2.3.2.2 Growth of part-time employees

Since 1994 for the economy as a whole there has been an increase in employment overall, comprising rises in both full-time and part-time employment. Between 1994 and 2005 part-time employment increased by 17 per cent compared to 11 per cent for full-time employment.

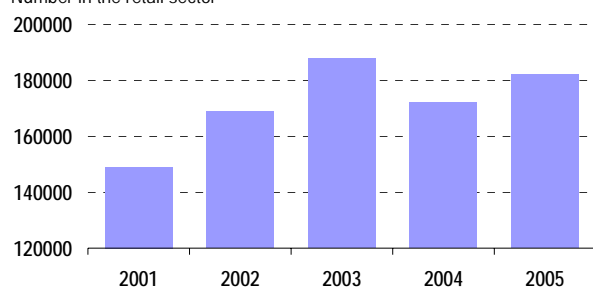
The rise in part-time employment is a reflection of the fact that it is an alternative to standard working and a method used to achieve an improved work-life balance.³⁰ The ONS Labour Force Survey shows that over 80 per cent of part-time workers do not wish to work full-time, while another 13 per cent or so are students, ill or disabled. Only approximately seven per cent of those surveyed respond that they are not able to find full-time work.

These trends can also be observed within the retail sector. Since 2001, the overall level of single parents who work on Sunday has increased (albeit with a slight adjustment in 2004) as shown in Figure 2.21. Over the same period, the number of full-time students who work on Sunday has also increased (Figure 2.22).

Figure 2.21

Single parents who work on Sunday

Number in the retail sector

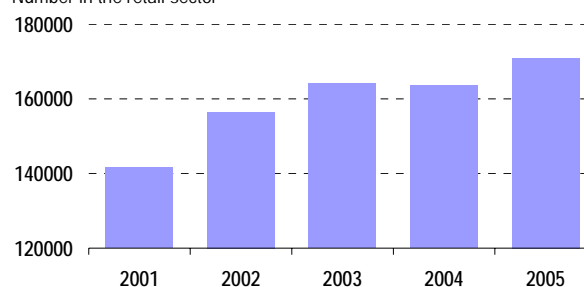


Source: DTI and ONS 'Labour Force Survey' (Spring 2005)

Figure 2.22

Full-time students who work on Sunday

Number in the retail sector



Source: DTI and ONS 'Labour Force Survey' (Spring 2005)

The growth in part time employment, and in the numbers of individuals with a preference for working on weekends and Sundays, brings into question previous arguments regarding the need to restrict Sunday trading to protect workers' interests. Further, it has increased the demand for flexible shop trading hours to accommodate the demands of consumers and this will increase the potential benefits from liberalisation.

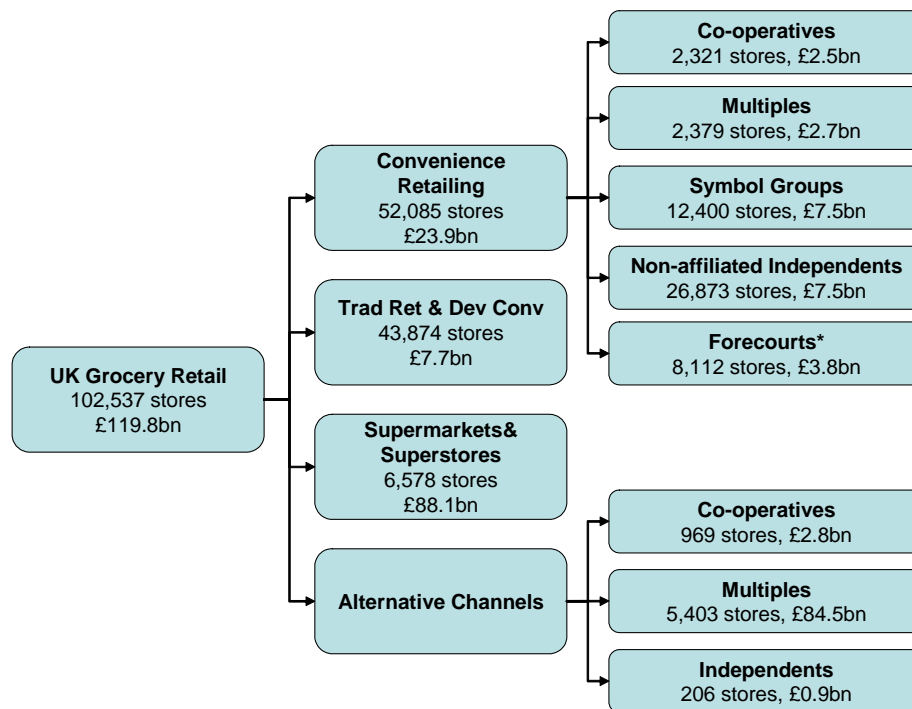
2.3.3 Changes in the retail sector

Since the introduction of the Sunday Trading Act 1994, the retail sector has undergone significant structural changes, most notably in the grocery segment. The structure of the UK grocery sector in 2005 is illustrated in Figure 2.23.

³⁰ ONS. January 2004. "Labour Market Trends."



Figure 2.23 UK Grocery sector 2005³¹

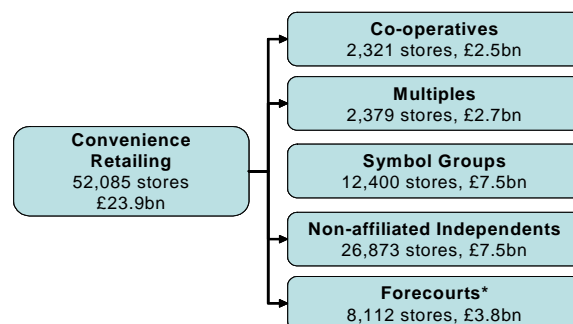


Source: IGD Research, 2005

* Adjusted to account for Joint Ventures

In 2005, convenience retailing accounts for almost 20 per cent of the total grocery retail market. Figure 2.24 illustrates the structure of the convenience store sector in 2005.³²

Figure 2.24 Convenience store sector



In 2005, non-affiliated independents represented 51 per cent of all stores and 31 per cent of sales in the convenience sector. In terms of the grocery sector, non-affiliated independents accounted for 26 per cent of stores and 6 per cent of total sales. In 2005, convenience retailing accounted for almost 20 per cent of the total grocery retail market.

³¹ Trad Ret and Dev Conv refers to traditional retail and developing convenience stores, which have sales areas of less than 280m² such as newsagents, grocers, off-licences and some forecourts. These are distinct from convenience stores, which also have sales areas of less than 280 m² but open for long hours and sell products from at least 8 different grocery categories (e.g. SPAR, Londis, Co-operative Group).

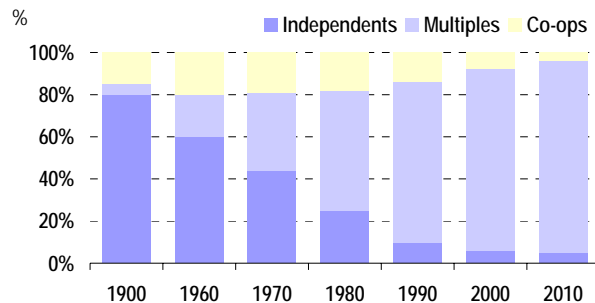
³² IGD 2005. www.igd.com



Figure 2.25 illustrates the long run changes in market shares within the convenience store sector since 1900, showing the increasing prominence of multiples in the sector, which include convenience specialists and supermarket chains.

Figure 2.25

Value market share in the convenience sector



Source: Defra, Economic note on UK grocery retailing

Table 2.4 shows the change in the number of convenience stores in the UK between 2001 and 2005.

Table 2.4 Number of convenience stores in the UK

Type of store	2001	2005	Change in number	% change
Co-operatives	1297	2321	1024	79
Convenience Multiples	2756	2379	-377	-14
Affiliated Independents	7175	12400	5225	73
Independents	34250	26873	-7377	-22
Forecourts	9367	8112	-1255	-13
Total	54845	52085	-2760	-5

Source: OFT, Grocery Market

The increased number of independent stores joining groups is significant, with a growth rate in independent affiliates of 5,225 or 73 per cent between 2001 and 2005. This is equivalent to a substantial part of the decline in independent stores over the same period of 7,377 (22 per cent).

Table 2.4 does not illustrate the recent expansion of large supermarket chains into the convenience sector. With regard to the 'Big Four' supermarkets³³, the OFT states that:³⁴

"...in 2000 they had between them 54 convenience stores in the UK but by 2005 they have 1,306."

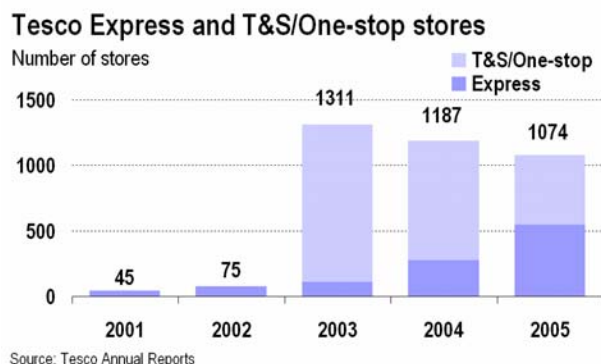
The entry of large supermarkets into the small store format is particularly evident with Tesco, who increased the number of small stores significantly between 2001 and 2005 as illustrated in Figure 2.26.

³³ Asda, Sainsbury, Morrisons and Tesco.

³⁴ OFT, *Ibid.*, p.15



Figure 2.26



While the number of small Tesco stores has decreased slightly since 2003, our understanding is that this largely reflects the closure of larger T&S/One-stop stores (which were acquired by Tesco in 2002), leaving only the small store format.³⁵ A number of small T&S/One-stop stores have been converted to the Tesco Express format.³⁶

The ongoing changes in the retail sector point to improvements in service quality and lower prices in the convenience store market due largely to the entry of large supermarkets, which tend to charge similar prices between store formats, and in response to consumer demand. An emerging trend may be for consumers to carry out an increasing proportion of shopping online, including routine grocery shopping, and to rely on convenience stores for top-up and specialty purchases.

In the non-food sector retail sales (as a percentage of GDP) have decreased slightly (Figure 2.27). Between 1994 and 2005, retail sales for non-food small businesses have not changed significantly, whereas there has been a large increase for large non-food businesses (Figure 2.28). Note that the classification of small and large businesses in Figure 2.28 is based on the number of employees in the business as a whole rather than shop size (or employment within each store), where businesses with less than 100 employees are classified as small.

Figure 2.27

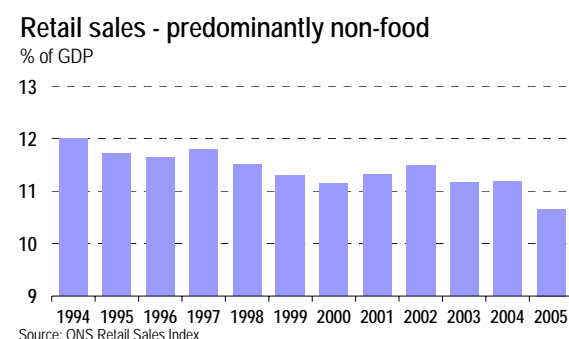
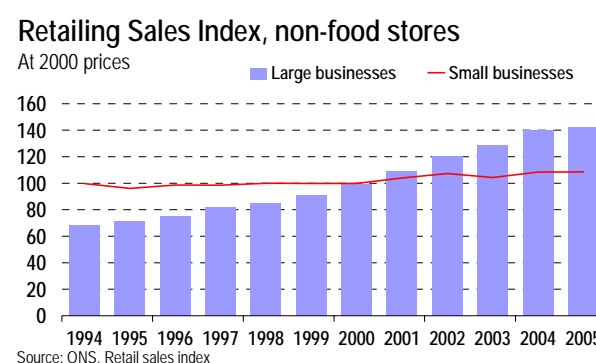


Figure 2.28



³⁵ Mintel. December 2005. "Convenience retailing UK".

³⁶ Tesco. Annual Report 2004 and 2005.



3 Appraising the costs and benefits of liberalising Sunday trading

In our cost-benefit analysis (Sections 4 and 5) we focus on the impacts on the sector and ultimately on consumers from liberalisation of Sunday trading. Here we discuss the relationship between sectoral changes and economy wide changes, since not all changes at the sectoral level will show up at the macroeconomic level.

The IFS (1982) observed that:

“The evidence submitted to the Committee contained a wide range of contradictory assertions about the likely effect on overall sales of an extension of trading hours”

“The majority of those who expected costs to rise as a result of extended Sunday trading also expected that employment in retailing would fall [and visa-versa]”

The IFS commented that the latter could only be true if there was a marked fall in total sales.

We also encountered views that, whilst they might be plausible for a single retailer, are unlikely to be true of the market or economy as a whole. We therefore discuss the circumstances in which company specific or sectoral changes resulting from liberalisation of Sunday trading might or might not be expected to have an economy wide impact.

3.1.1 Sector changes do not necessarily translate into economy wide changes

An economy does not behave like a business since specific changes at the sectoral level do not necessarily translate into economy wide changes, for example:

- a change in retail sales at some stores due to extended trading would not necessarily result in a change in overall retail sales (or overall consumption)
- a change in employment at some stores due to extended trading would not necessarily result in a change in employment in the economy as a whole
- a change in retail prices due to extended trading would not necessarily change economy wide inflation

Krugman set out the general explanation as follows.³⁷

“In the open-system world of business, feedbacks are often weak and almost always uncertain. In the closed-system world of economics, feedbacks are often very strong and very certain. But that is not the whole difference. The feedbacks in the business world are often positive; those in the world of economic policy are usually, though not always, negative.”

Negative feedbacks that dampen or remove the impact of changes at the sectoral level at the economy wide level include

- household budget constraints which limit the scope for overall consumption to change
- labour supply and monetary policy constraints which limit the scope for overall employment to change
- monetary policy targets which imply that a reduction in prices in one sector is likely to be offset by price increases in other sectors of the economy.

³⁷ Paul Krugman. January-February 1996. “A country is not a company.” *Harvard Business Review*.



3.1.2 Productivity growth does impact overall income growth

National income per capita is the product of how much people work in terms of labour force participation and hours of work, and how productive they are in terms of value added per hour worked (labour productivity). In the long-run labour productivity growth determines income growth – since there are limits to how much people wish to work.

Productivity gains are not harmful to employment at the economy wide (or necessarily the enterprise) level since output expands as productivity increases. The reason for this is simple: productivity gains result in lower prices and therefore promote an offsetting expansion of use and output. Jobs may be reallocated, but they are not eliminated. If this were not the case, then the six fold increase in labour productivity growth in the UK between 1870 and 1999 would have resulted in a huge increase in unemployment. In fact there may be a negative relationship at the economy wide level between productivity growth and the level of unemployment consistent with price stability.³⁸

At sector level, whether there is a productivity growth-employment trade-off depends on whether output growth in the sector offsets productivity growth. For example, productivity growth in agriculture has been accompanied by a substantial and sustained fall in employment, whilst productivity growth in manufacturing has at times been associated with employment growth in the sector.³⁹

3.1.3 Productivity growth depends on “Creative destruction”

There is considerable evidence that “creative destruction” (a term introduced by the economist Joseph Schumpeter) in relation to the entry and exit of firms, workers and skills and the reallocation of economic activity across locations is a necessary part of productivity growth. For example Aghion and Howitt (2005) note that:⁴⁰

“Europe would benefit from a competition and labor market policy that does not only emphasize competition among incumbent firms, but also stresses the importance of entry, exit and mobility.”

There is evidence that “creative destruction” has played a particularly important role in productivity growth in the retail sector. One study found that the net contribution of the entry and exit of firms accounts for between 20 and 50 per cent of total productivity growth for the economy as a whole.⁴¹ Foster, Haltiwanger, and Krizan (2002) find that productivity growth in retailing in the US mainly occurs in new rather than existing stores.⁴²

For the UK, Haskel and Khawaja (2003) find that, although annual entry rates in the UK are much higher than in the US, between 8.7 per cent and 10.2 per cent across all retail sectors between 1998-2000, the contribution of new stores to aggregate productivity growth is lower than in the US.⁴³ They show that larger retailers have higher labour productivity, but that growth in labour productivity is fastest amongst the smallest retailers. However, we note that Haskel and Khawaja were not able to use pure shop level data in their study.

³⁸ Ball and Mankiw. May 2002. “The NAIRU in theory and practice.” NBER working paper no 8940.

³⁹ Bart van Ark, Ewout Frankema and Hedwig Duteweerd. May 2004. “Productivity and Employment Growth: An Empirical Review of Long and Medium Run Evidence.” Groningen Growth and Development Centre Research Memorandum GD-71. Page 82. <http://www.ggdc.net/index-publ.html#top>

⁴⁰ Philippe Aghion and Peter Howitt. August 2005. “Appropriate growth policy: a unifying framework.” http://post.economics.harvard.edu/faculty/aghion/papers/Appropriate_growth.pdf

⁴¹ Bartelsman, Haltiwanger and Scarpetta. October 2004. “Microeconomic evidence of creative destruction in industrial and developing countries.” The Institute for the Study of Labor (IZA), Bonn. <http://repec.iza.org/RePEc/Discussionpaper/dp1374.pdf>

⁴² Foster, Haltiwanger and Krizan. August 2002. “The link between aggregate and micro productivity growth: Evidence from retail trade.” NBER Working Paper 9120.

⁴³ Haskel and Khawaja. October 2003. “Productivity in UK retailing: evidence from micro data.” <http://www.qmul.ac.uk/~uqte153/CERIBA/publications/services.pdf>



To the extent that Sunday trading increases the capacity of successful retailers – those who offer customers the best combination of service and price – it would result in an increase in productivity and sales at the expense of less successful retailers. We analyse the productivity impact of liberalisation of Sunday trading, in terms of improved utilisation of existing and future store capacity, in our cost benefit analysis.

3.1.4 Transmission of productivity changes into economic benefits

Productivity growth impacts on national income, however the channels via which productivity growth produces benefits for different groups in society are not simple. Increased productivity in the retail sector could impact on wages, profits and prices.

With competitive retail and labour markets, and little change in retail output or labour demand, much of the productivity gain will feed into lower consumer prices. In response to a downward adjustment in retail prices the Bank of England would be able to ease monetary conditions and lower real interest rates would be consistent with price stability. Other prices in the economy can be expected to rise.

The average consumer is not necessarily better off as a result of price adjustments flowing from a productivity increase in the retail sector although low income consumers, who spend more on retail as a proportion of their household income, would be made better off by the first round impacts. However, there are further effects of an easing in monetary conditions that will have a real impact on households and the economy. For example, investors and employees in sectors that are able to raise their prices as a result could gain.

The benefits of a productivity gain in one sector are therefore redistributed throughout the economy by a complex chain of adjustments, and may not be captured predominantly by owners and employees in the sector experiencing the positive productivity shock. An average consumer of the goods or services in question may also not be a significant direct beneficiary, since other prices will adjust in an offsetting way.

3.2 Alternative methods of appraisal

There are a number of ways of appraising the costs and benefits of liberalising Sunday trading restrictions. These include:

- 1 arguments from first principles – in some instances there may be grounds for a strong presumption that a specific change will be beneficial on balance
- 2 using a model with key parameters calibrated for the sector – this approach may be feasible even where the first approach leads to an ambiguous conclusion
- 3 examination of the experience of liberalisation in other countries, in this case an obvious comparison would be with experience in Scotland
- 4 summing up estimated costs and benefits of change i.e. cost benefit analysis

The first three methods provide input to the cost benefit analysis and complement some aspects of it. We consider these in turn.

3.2.1 Arguments from first principles

There will be instances where there are grounds for a strong presumption that a particular policy shift would deliver net benefits. This approach is appropriate where there is a strong model of the circumstances and the sign of the net cost-benefit is clear even though the magnitude is not.



An example might be a situation where a good, service or environmental externality is currently un-priced and does not have public good characteristics. Moving towards cost reflective pricing could be presumed to result in a welfare improvement, provided the administrative costs of pricing itself were not too high. In these circumstances, cost benefit analysis might provide little additional information and it could provide a weaker inference than sound reasoning from first principles.⁴⁴

Markets, in the absence of problems such as externality, can be shown to maximise overall welfare. It is not therefore unreasonable to argue that if Sunday trading were liberalised stores would only open where doing so would be beneficial to consumers and the store in question. Even if the unit costs and therefore prices were higher as a result, one might expect stores to open only if the value of convenience to customers exceeded the additional costs.

However, when the regulation of retail trading hours was analysed by the Institute of Fiscal Studies in 1984, the authors concluded that:⁴⁵

“...it cannot be decided on a priori grounds whether the restrictions on consumer choice, inherent in limitations to trading hours, could nevertheless yield overall benefits. The fact that shops choose to open on Sundays does not guarantee that the gains derived from greater consumer choice will offset the additional costs involved. A final assessment must depend on an empirical study of the costs and benefits involved...” Page 10

3.2.2 Conclusions based on a calibrated model of the retail sector

Kay and Morris (1987), authors of the IFS study cited in Section 3.2.1, considered the economic efficiency of Sunday trading restrictions from a theoretical perspective.⁴⁶ They show that whilst competitive pressures may as a theoretical possibility lead to equilibria where excessive opening occurs at times such as Sundays, when high costs would be incurred, that:

“...although these inefficient equilibria could occur, in fact they do not; and our sensitivity tests suggest that it is improbable that there are any reasonable assumptions under which this could be characteristic of the British retail sector as it is today. It follows that there is no economic case for general restrictions on Sunday trading, and that any argument about the subject should be conducted on other grounds.” Page 128

Kay and Morris assumed in their central case that Sunday wages were subject to a “double time” payment. They thought that this might exceed the market rate required to attract the labour needed. Evidence now supports this hypothesis, as Sunday wage premiums in retailing have fallen or been eliminated, in some instances in favour of higher base rates. The extension of Sunday trading would now prove relatively less costly in terms of labour costs than assumed in 1987.

Kay and Morris did not consider the possibility that Sunday trading or extended Sunday trading would change the consumer experience, irrespective of the impact on unit costs. We consider impacts on congestion and convenience in our cost benefit analysis.

3.2.3 Examination of experience in other jurisdictions

Experience of liberalisation of Sunday trading in Germany, Sweden, Australia, New Zealand and Canada is reviewed in Appendix C.

⁴⁴ We note that this approach accords with the scientific method where data is examined alongside an hypothesis.

⁴⁵ Kay, Morris, Jaffer and Meadowcroft. 1984. “The regulation of retail trading hours.” The Institute of Fiscal Studies.

⁴⁶ Kay and Morris. December 1987. “The economic efficiency of Sunday trading restrictions.” *The Journal of Industrial Economics*, Volume XXXVI.



Experience in Germany points to a divergence between consumers' expectations prior to liberalisation and their behaviour post liberalisation – they tend to make greater use of liberalised trading hours than they anticipated. In Sweden an investigation found that a 10 per cent increase in opening hours had reduced prices by 0.3 per cent. In Australia the Productivity Commission concluded that more flexible trading hours had been of net benefit to consumers.

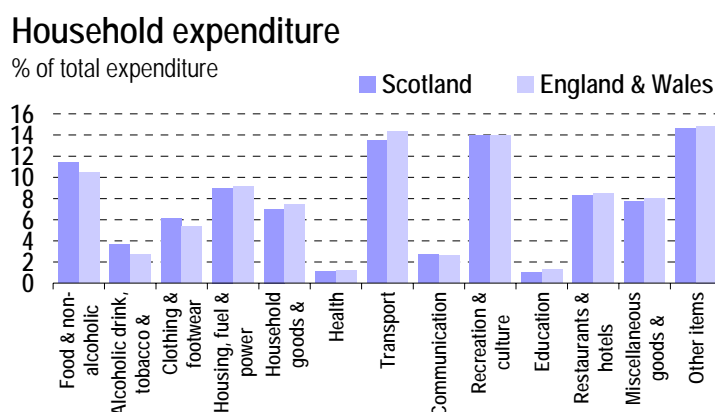
3.2.4 Examination of experience in Scotland versus England and Wales

Given that there are no restrictions on Sunday trading hours in Scotland, we have made comparisons between Scotland and England and Wales. Whilst available information does not provide a basis for reaching a conclusion regarding the net costs or benefits of liberalising Sunday trading in England and Wales, it places bounds on the outcomes that might be anticipated and provides information on some of the assumptions required for our cost benefit analysis.

Overall household expenditure in Scotland is slightly lower than that in England and Wales at £380 per week versus £412 per week. However, the cost of living in Scotland is lower than in the UK, with an index value of 94.5 versus 100⁴⁷ and the purchasing power of household expenditure in England and Wales and Scotland is similar.

Figure 3.1 shows household expenditure patterns in Scotland and in England and Wales. It shows that the share of household expenditure going on retail categories including food and non-alcoholic drinks, alcoholic drink and tobacco and clothing and footwear is marginally higher than in England and Wales. These expenditure categories represent 21.3 per cent of overall expenditure for Scottish residents versus 18.6 per cent in England and Wales.

Figure 3.1

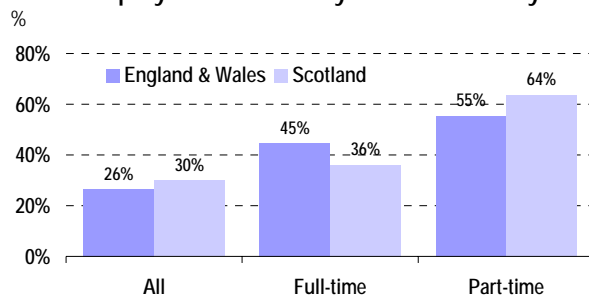


Source: ONS Family Spending 2004-05

Figure 3.2 shows the proportion of retail employees who usually work on Sunday compared to the week as a whole, and the share of full-time and part-time retail employees on Sunday in Scotland and in England and Wales. An additional 4 per cent of retail employees mostly work on Sunday in Scotland, and a higher proportion are part-time. If the Sunday and rest of week labour markets were entirely distinct the difference of 4 per cent would provide a proxy for the difference in the level of Sunday trade between England and Wales and Scotland.

⁴⁷ ONS. 2006. "Social Trends." Table 6.15.

http://www.statistics.gov.uk/downloads/theme_social/Social_Trends36/Social_Trends_36.pdf

**Figure 3.2****Retail employees who mostly work on Sunday**

Source: DTI; ONS Labour Force Survey

Information is also available on travel times, modes and distances related to shopping in Scotland and Great Britain. The data is available for slightly different points in time, though the stability of the statistics over time makes the data comparable.

Table 3.1 shows transport patterns for Scotland,⁴⁸ and Table 3.2 shows the same information for Great Britain.⁴⁹

Table 3.1: To and from journeys related to shopping in Scotland

	1985/86	1989/91	1992/94	1995/97	1998/00	20002/03
Average shopping trips per year	189	237	239	222	234	192
Average trip time (minutes)	16	16.7	17.3	17.1	16.1	17.3
Average trip length in miles	2.9	3.0	3.1	4.1	4.5	4.7

Source: Scottish Executive (2005) "Travel by Scottish Residents"

Table 3.2: To and from journeys related to shopping in Great Britain

	1985/86	1991/1993	1996/1998	1999/2001	2002
Average shopping trips per year	210	225	222	214	201
Average trip time (minutes)	16	17	17	17	17
Average trip length in miles	2.9	3.5	3.9	4.2	4.3

Source: Department of Transport (2004) "National Travel Time Survey"

⁴⁸ Scottish Executive. 2005. "Travel by Scottish residents: some National Travel Survey results for 2002/2003 and earlier years." Statistical Bulletin – Transport Series. <http://www.scotland.gov.uk/Resource/Doc/37432/0011204.pdf>

⁴⁹ Department for Transport. July 2004. "National Travel Survey:2002 (revised July 2004)". Transport Statistics Bulletin. http://www.dft.gov.uk/stellent/groups/dft_transstats/documents/page/dft_transstats_028370.pdf



The above data do not show any significant difference in relation to shopping journeys in Scotland and Great Britain. The data do not point to greater sparsity of retail outlets as an outcome of extended Sunday trading.

A supermarket chain provided us with data on customers by day of week for England and Wales and Scotland. These show that Sunday accounts for 11.3 per cent of weekly customers in Scotland versus 9.4 per cent in England and Wales i.e. a difference of 1.9 per cent.

Table 3.3: Supermarket customers by day of week in England and Wales and Scotland

	Mon	Tues	Wed	Thur	Fri	Sat	Sun
Proportion in England and Wales	14.0	14.6	14.9	14.8	16.0	16.3	9.4
Proportion in Scotland	13.5	14.0	14.6	14.5	15.9	16.2	11.3

Another supermarket chain provided us with data showing that sales on Sunday in Scotland account for 14 per cent of weekly sales whereas sales on Sunday in England and Wales account for 10 per cent of weekly sales i.e. a difference of 4 per cent. The absolute level of sales on other days was not significantly different, implying that additional sales on a Sunday in Scotland represents additional retail capacity.

Finally, the Horticultural Trades Association provided data on trading patterns for garden centres in England and Wales versus Scotland. Garden centres make approximately 23-25 per cent of weekly sales on Sunday, whereas in Scotland Sunday can account for up to 30 per cent of weekly sales. In addition, Sunday sales in England and Wales are 1-2 percentage points lower than Saturday sales, whereas prior to 1994, when garden centres did not face current restrictions, Sunday was generally the busiest trading day.

We were informed that existing differences in sales levels between Scotland and England and Wales could be thought of as a lower bound on potential sales from extended Sunday trading in England and Wales, since consumers in the affluent southeast of England tend to have a greater preference for Sunday shopping and to spend more.



4 The cost benefit analysis

"The cost of a thing is the amount of what I will call life which is required to be exchanged for it, immediately or in the long run." Henry David Thoreau

4.1 Overview

Cost benefit analysis relies on the summing up of relevant costs and benefits of a policy change. This approach differs from the macro level perspective discussed in Section 3, though both can be thought of as providing measures of welfare changes.⁵⁰

In order to conduct a cost benefit analysis a number of basic things must be decided.

- 1 Who has standing, in other words what group of people are considered when assessing costs and benefits?
- 2 What will happen with and without policy change as distinct from what will happen before and after policy change?
- 3 What are the relevant and material costs and benefits to consider?
- 4 How should costs and benefits that arise at different times be added up?

In considering these questions we utilised the following principle sources of guidance: HM-Treasury "The Green Book" (2003);⁵¹ Boardman *et al* (2006);⁵² Cabinet Office Regulatory Impact Assessment (RIA) Guidance;⁵³ and Department of Transport guidance.⁵⁴

4.1.1 Who has standing?

We consider changes in costs and benefits whether they flow into profits or final prices or quality of service, since ultimately individuals in society are the recipients of profits. In any case, in a competitive market with free entry most of the impact from a change in costs will ultimately end up as a change in prices and service levels.

GDP is a measure of overall national income including returns to labour and capital. Welfare economic analysis considers the sum of producer and consumer surplus. Ultimately, profits are owned by individuals via their pensions, funds and individual share ownership. One estimate for the US put the share of gains appropriated by producers as a result of productivity improvements at between 5 and 10 per cent over the past 150 years.⁵⁵ This outcome is what one would expect if markets are more or less competitive.

We therefore consider both consumer and producer surplus in our analysis, and include the division between the two from a reduction in costs as a choice variable in the model. Our default assumption is that 90 per cent of the value of a reduction in costs is ultimately captured by consumers via lower retail prices, with 10 per cent captured via share ownership.

⁵⁰ Martin Weitzman. February 1999. "A contribution to the theory of welfare comparisons." NBER Working Paper 6988.

⁵¹ HM Treasury. 2003. "The Green Book – Appraisal and evaluation in central government." http://www.hm-treasury.gov.uk/economic_data_and_tools/greenbook/data_greenbook_index.cfm

⁵² Boardman, Greenberg, Vining and Weimer. 2006. "Cost-benefit analysis – concepts and practice." Third Edition. Pearson Prentice Hall.

⁵³ Cabinet Office. http://www.cabinetoffice.gov.uk/regulation/ria/ria_guidance/index.asp

⁵⁴ Department of Transport. December 2004. Transport Analysis Guidance, in particular TAG 3.5.6 "Values of time and operating costs." http://www.webtag.org.uk/webdocuments/3_Expert/5_Economy_Objective/3.5.6.pdf

⁵⁵ William D Nordhaus. April 2004. "Schumpeterian Profits In The American Economy: Theory and Measurement." NBER Working Paper 10433. <http://www.nber.org/papers/w10433>



Implicitly, in considering overall retail sales, we also consider changes in welfare for all consumers including those who are not UK citizens, for example, tourists.

4.1.2 What will happen with and without policy change?

A number of changes are occurring in the retail sector irrespective of any possible change to Sunday trading restrictions. It would be wrong to attribute these to a postulated policy change. Examples of changes that have occurred or are ongoing and material in terms of an assessment of costs and benefits of relaxing Sunday trading restrictions include:

- 1 extended Sunday opening following liberalisation in 1994 i.e. growth within the current restrictions
- 2 growing congestion
- 3 the rising value of individuals time with real income growth
- 4 growth in online sales
- 5 reduction in Sunday wage premiums

We therefore analyse outcomes with and without liberalisation of Sunday trading, rather than considering outcomes before and after such a change, taking account of the above considerations.

In addition, in terms of the possible distributional impacts of further liberalisation of Sunday trading we note the growth over recent years in the convenience store market (notwithstanding shifts between convenience store categories), including the entry and growth of multiples in the convenience store market.

4.1.3 What are the relevant costs and benefits?

There are a number of questions in relation to what costs and benefits to count, namely:

- 1 where the boundaries of analysis are drawn in relation to the market since all changes will have downstream impacts
- 2 the extent to which non-financial costs and benefits are included, for example, the value of convenience
- 3 whether there are costs and benefits external to the market economy that should be considered, for example, traffic congestion, convenience and pollution
- 4 whether changes in asset prices should be counted.

4.1.3.1 Boundary of analysis

Cabinet Office RIA guidance discusses the appropriate coverage of costs and benefits and notes that:

"In general, the analysis of costs and benefits will need to quantify only at the first-round, or impact effects of proposed measures."

The guidance notes that in most cases macroeconomic or second-round effects:

"...represent simply a re-distribution of resources within the economy, without any net overall economic effect."

Boardman *et al* (2006) discuss the economics of the evaluation of costs and benefits in secondary markets in some detail, and conclude that:



"We can, indeed should ignore impacts in undistorted secondary markets as long as changes in social surplus in the primary market resulting from a government project are measured and prices in the secondary market do not change." Page 113; and

"We should ignore effects in undistorted secondary markets, regardless of whether there are price changes, if we are measuring benefits in the primary market using empirically measured demand schedules that do not hold prices in secondary markets constant." Page 118

Another reference source, Baumol and Oates (1988) discusses the distinction between technological and pecuniary externalities, and notes that there is a category of:⁵⁶

"...pseudo-externalities, the pecuniary externalities, in which one individual's activity level affects the financial circumstances of another, but which need not produce a misallocation of resources in a world of pure competition."

The authors give as an example of a pecuniary externality an increase in demand for shoes which raises the price of leather and therefore lowers the welfare of purchases of handbags. Another example directly relevant to the retail sector would be the impact on the retail supply chain, which we do not therefore quantify.

4.1.3.2 Non-financial costs and benefits

These considerations lead us to focus on direct impacts in the retail market including impacts in relation to the consumer experience including congestion and convenience (which can be valued by allowing for the value people place on their time). We also consider whether there are likely to be net external environmental or congestion impacts, above and beyond those internalised by existing policies.

4.1.3.3 External costs and benefits

External costs and benefits, such as environmental externalities, should only be counted explicitly to the extent that they are not already captured in market prices via taxes or regulations designed to internalise them. For example, both energy and transport fuel are subject to taxes at least in part motivated by a desire to internalise the environmental impacts of their consumption.

In practice, we consider environmental costs and benefits qualitatively, and conclude that there are reasonable grounds for considering that environmental harm associated with any use of resources by the retail sector would be reduced by improvements in productivity (less resources per unit of sales) and reduced congestion resulting from liberalisation of Sunday trading.

4.1.3.4 Changes in asset prices

In response to liberalisation of Sunday trading asset prices such as the value of land and buildings used in the retail trade may change reflecting changes in operating costs and profitability. Such changes should not be counted as additional to changes in consumer and producer surplus, since they represent market expectations of changes in surplus that will be captured or lost by producers, which are already included in the cost benefit analysis.

Market dynamics, with entry, exit, growth and decline – in short "creative destruction" – necessarily involves the creation and destruction of wealth. The process, however, leads to higher productivity and lower prices and better service for consumers over time.

⁵⁶ Baumol and Oates. 1988. "The theory of environmental policy." Second edition. Cambridge.



4.1.4 How should costs and benefits at different times be added up?

All our calculations are in real terms and so inflation is not relevant. This leaves the question of how to value a unit of costs or benefits in the future relative to in the present. The standard approach is to discount future benefits to account for preferences over consumption relative to consumption in the future.

We adopt the HM-Treasury discount rate of 3.5 per cent per annum (discussed in detail in Annex 6 of the Green Book), which is comprised of a pure inter-temporal rate of time preference of 1.5 per cent per annum and a factor based on anticipated economic growth of 2.0 per cent.⁵⁷ Boardman *et al* (2006) provide an extensive discussion of alternative approaches to determining the social rate of time preference including the foregoing approach, and propose a central estimate of 3.5 per cent within a range 2.0 to 5.0 per cent for the US (assuming long term growth of 2.3 per cent per annum).

4.2 Alternative scenarios

We consider the costs and benefits of the following alternative liberalisation scenarios:

- Full liberalisation of trading hours – the response will depend on customer demand and costs at individual stores, will likely differ by store type, and could range from a modest increase in hours to 24 hour opening
- Partial liberalisation to allow trading at any time within the current 10am-6pm interval (rather than restricting trading to 6 hours within this interval)
- Partial liberalisation of trading hours to allow trading anytime between 9am-7pm (more “typical” of Saturday trading patterns)
- In addition to the above, liberalisation of trading on Easter Sunday.

We note that there are no plans to change employee protection for retail workers. We also assume that controls to prevent deliveries outside certain hours will not change for the purpose of this analysis.

4.3 Our approach to modelling costs and benefits

We make a series of assumptions that aim to capture the key features of the market and the changes that liberalisation of Sunday shopping would introduce but, consistent with the principle of Occam’s Razor refer the simplest model that allows this. This is an aid to transparency.

Our modelling is in two parts:

- analysis of the anticipated change in unit costs and prices as a result of extended Sunday trading
- analysis of the anticipated change in customer convenience, proxied by changes in time use, as a result of extended Sunday trading.

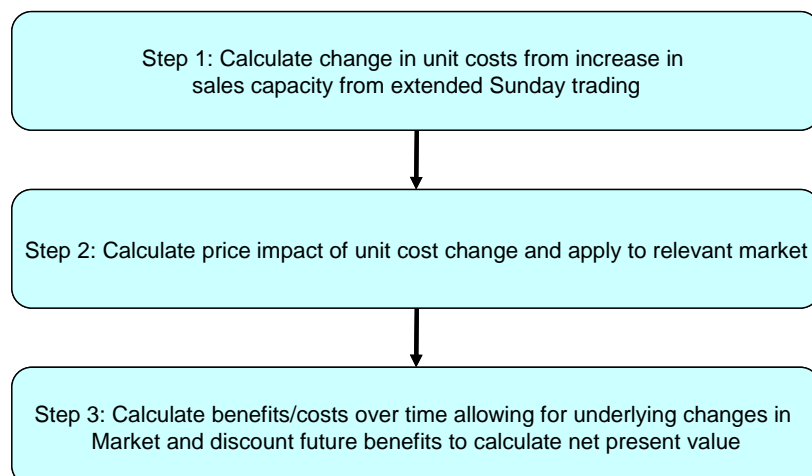
4.3.1 Assessing the anticipated change in unit costs

Our overall approach in relation to calculating the cost-benefit impact of a change in unit costs is summarised in Figure 4.1.

⁵⁷ The intuition for the latter factor is that if you expect your future income to be higher and you value each extra unit of income less than the previous one, you will want to smooth out your consumption by valuing current consumption more highly than future consumption. Assuming an income elasticity of the marginal utility of consumption of 1.0 and anticipated growth in GDP per capita of 2 per cent yields an additional contribution to the discount factor of 2.0 per cent. In our cost benefit analysis the discount rate is made endogenous to the assumed GDP growth rate.



Figure 4.1: Steps in calculating impact of change in unit costs due to extended Sunday trading



In **Step 1** we assume that extended Sunday trading increases the potential level of sales from existing and future stores that are subject to the current restriction i.e. those with a sales area of over 280 m². We assume that labour input increases proportionately with increased sales and that other operating and capital costs remain fixed, and that labour costs increase depending on the level of Sunday wage premium.⁵⁸ Other operating costs and capital costs are assumed to be constant on the grounds that extended Sunday trading increases store capacity and that expenditures such as heating and lighting remain more or less fixed irrespective of whether a store is open for more time on Sunday or not.

As a simplifying assumption we assume that total retail sales remain constant with extended Sunday opening.⁵⁹ Additional sales at some stores must therefore come from sales at other times, sales by other stores and out of future growth which would otherwise have to be accommodated by new capacity. We assume that this shift happens over a transitional period.

In **Step 2** we calculate the change in prices and profits flowing from a change in unit costs and apply the change in prices to most of the rest of the market. This is on the grounds of national pricing policies by stores, linkages to the prices of smaller stores under common ownership and competitive impacts on other retailers, which extend the impact of the change in unit costs across the market.

In **Step 3** we apply the change in unit costs and prices to the anticipated value of retail sales in England and Wales over time. We allow for the falling value of retail sales relative to GDP and sales deflection to online retailers who are not subject to any restriction on Sunday trading or delivery.

Two key assumptions are the anticipated increase in the level of sales per m² of existing and future stores that are subject to the current restriction, and the increase in labour costs associated with this increase.

Extending the scope for Sunday shopping would allow existing and future stores where the demand exists to sell more for a given floor space, resulting in higher efficiency. To calibrate our assumption over how much sales might increase we have looked at evidence of sales by day of week (in particular Saturday versus Sunday sales), and sales patterns in Scotland versus England and Wales (discussed in Section 3.2.4). The difference in sales in Scotland versus England and Wales from Section 3.2.4

⁵⁸ Competition Commission. 2000. "Analysis of store-level operating costs." Appendix 10.2. http://www.competition-commission.org.uk/rep_pub/reports/2000/fulltext/446a10.2.pdf

⁵⁹ This is consistent with the position taken in the 1994 study by London Economics of alternative Sunday trading regulations. Regression (statistical) analysis of the retail share of overall consumption as a function of factors such as prices, incomes and opening hours led to the conclusion that increased Sunday trading had had no detectable effect on aggregate retail sales.



was in the 2-4 per cent range, though as discussed this likely represents a lower bound on the increase in trade that would be anticipated with liberalisation of Sunday trading in England and Wales.

Table 4.1 shows data provided by a large (non-supermarket) retailer in the leisure activity sector by day of the week for England and Wales (comparative data for Scotland was not available). The data illustrate the importance of weekend trade to stores which offer goods and services related to leisure. A disparity of 5.8 percentage points between trade on Saturday and Sunday is apparent.

Table 4.1: Sales by day of week in England and Wales

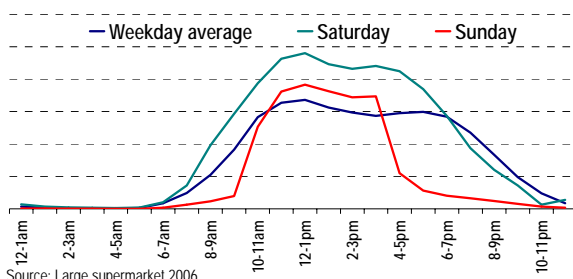
	Mon	Tue	Wed	Thur	Fri	Sat	Sun
Proportion	12.4%	12.0%	12.0%	11.9%	12.5%	22.5%	16.7%

Finally, Figure 4.2 shows the daily sales profile for an average weekday, Saturday and Sunday for a large supermarket. This shows the scope for extended Sunday trading to increase sales.

Figure 4.2

Large supermarket profile of trade - UK

Total sales value



On the basis of the above information we assume that full liberalisation of Sunday trading would increase the retail capacity of large stores by between 3 and 5 per cent, and adopt 4 per cent for our mid-point assumption.

The other key assumption is the share of labour costs in overall costs which we estimate on the basis set out in Table 4.2.

Table 4.2: Cost structure assumption for the retail sector

	General retail %	Predominantly food %	Weighted average %
Proportion of sales	54	46	
Share of goods for resale	60	80	69
Labour cost share of operating costs including margin	30	46	37

We utilise the weighted average labour cost share of operating costs of 37 per cent in our modelling which result in a labour cost share of total costs of 11.47 per cent (i.e. $[1-0.69]*0.37$). Combining this with assumptions for the increase in sales and the Sunday wage premium (i.e. 1.25) allows the calculation of the equilibrium reduction in unit costs – as set out in Table 4.3.


Table 4.3: Calculation of change in unit costs

	Proportion of costs %	Impact of liberalisation %
Cost of goods	69.0	$+4 \times 0.69 = 2.760$
Labour costs	11.5	$+4 \times 1.25 \times 11.47 = 0.574$
Other costs	19.5	None
Total impact on costs		$2.76 + 0.5735 = 3.333$
Change in unit costs		$(1 + 3.3335) / (1 + 4\%) = -0.641$

In the above calculation we assume that labour costs increase in proportion to sales, and other costs remain fixed. For some store types, in particular supermarkets, costs other than staff costs are more or less fixed independent of opening hours or sales since space, temperature control and lighting are required for staff working outside opening hours in any case. In addition, we had some evidence that overall labour costs would increase less than proportionately with sales.

For other store types such as DIY, labour costs might increase more than proportionately with sales if hours were extended and some other costs might be incurred. We also note that if unit costs were expected to increase significantly in relation to additional sales extended trading would be less likely. Overall we consider our simplifying assumption a reasonable approximation for a diverse set of retailers.

The calculated change in unit costs of -0.641 per cent is phased in over an adjustment period in our modelling, and impacts the market according to the share going to profits versus prices and the fraction of the market impacted by the change in prices.

We then calculate future benefits assuming a transition period to equilibrium and based on the size of the retail market impacted by the unit cost change. The net benefit stream is discounted, based on the HM-Treasury discount rate of 3.5 per cent, and a net present value is calculated over 20 years.

Whilst the choice of time period is somewhat arbitrary, it is long enough to illustrate the impact of underlying market trends on benefits over time. We also test the robustness of the analysis to plausible ranges in individual parameter values.

Our detailed assumptions used in modelling changes in unit costs and their market impact are shown in Table 4.4.


Table 4.4: Detailed assumptions for modelling of unit costs, prices and profits

Parameter	Central assumption	Range	Source
GDP growth rate	$g = 2\% \text{ pa}$	$g = 1.75\%-2.25\% \text{ pa}$	HM-Treasury Green Book
Discount rate	$3.5\% = 1.5 + 1.0 \cdot g$	$r = 1.5 + \mu \cdot g$, where $\mu = 0.5-1.5$	HM-Treasury Green Book and Boardman <i>et al</i> (2006)
Time frame	20 years		Sufficient to capture market dynamics
Increase in store capacity	4%	3%-5%	Based on consideration of volumes on different days in England and Wales and Scotland
Value of retail sales for England and Wales	£222,946 million based on assumption that England and Wales account for 89.4% of UK total of £249,380 million in 2005		UK total: Office of National Statistics Retail Sales March 2006 Proportion of sales in England and Wales: Annual Business Inquiry 2004
Growth in online sales	From 5% in 2006 to 35% in 2026	From 5% in 2006 to 25%-45% in 2026	ONS (January 2006). "Internet access" and DKW (2006)
Retail sales growth (real RPI deflated)	$g-1.3\%$	$g-(1.0\% \text{ to } 1.6\%)$	Based on historical relationship between growth in GDP and growth in retail sales
Proportionate increase in labour input with increase in Sunday sales	100%	90%-110%	Judgement based on evidence from retailers
Average Sunday wage premium	125%	100%-125%	Judgement informed by Incomes Data Services (our Table 2.3)
Cost share of goods for resale	69%	66%-72%	Competition Commission (2000) for food retailing and DKW (2006) for general retailing
Labour share of operating costs and margin	37% Weighted average	34% to 40%	Competition Commission (2000) for food retailing and DKW (2006) for general retailing
Share of cost reduction flowing into price reduction	90%	85% to 95%	Judgement informed by Nordhaus (2004) who found that for the US economy as a whole firms kept 10% of the gains from productivity over the past 100 years, and based on the Competition Commission (2000) finding that the supermarket sector is "broadly competitive"
Market impacted by price reduction	80% of retail sales excluding internet sales	75-85% of retail sales excluding internet sales	Judgement informed by IGD cited in OFT (2006) for convenience store share of grocery market



4.3.2 Assessing the anticipated change in convenience

Calculating the impact on unit costs from extended Sunday opening is only part of the story. It is also important to estimate the impact on customer side convenience since, even were unit costs to increase, there might be net benefits from extended Sunday opening due to the additional value customers place on the opportunity to shop over an extended period on Sundays.

The impact on convenience takes a number of forms, only some of which we attempt to quantify. The impacts we do quantify should therefore be thought of as a proxy for a wider set of impacts on consumers from the current restriction on Sunday shopping. The range of impacts includes:

- Lost welfare to those who wish to shop on a Sunday outside existing hours, but instead shop within the current restricted hours or on another day of the week. Differences in consumer behaviour between Scotland and England and Wales suggest that overall demand for Sunday shopping is frustrated by the current restriction.
- Additional costs incurred where goods from higher price outlets are incurred because consumers are inconvenienced by Sunday shopping restrictions.
- Additional journeys incurred because it is difficult to coordinate shopping and other activities and/or different shopping activities given restricted trading hours on a Sunday. In some instances an opportunity will simply be foregone rather than an additional journey incurred.
- Increased queuing at and within stores due to compressed trading at the end of day on Sundays. In addition, customers make “mistakes” and arrive when stores are shut on a Sunday, in particular on Easter Sunday.
- Inconvenience to some customers if some small stores close due to the impact of extended Sunday trading for large stores i.e. the distribution of stores becomes more sparse.

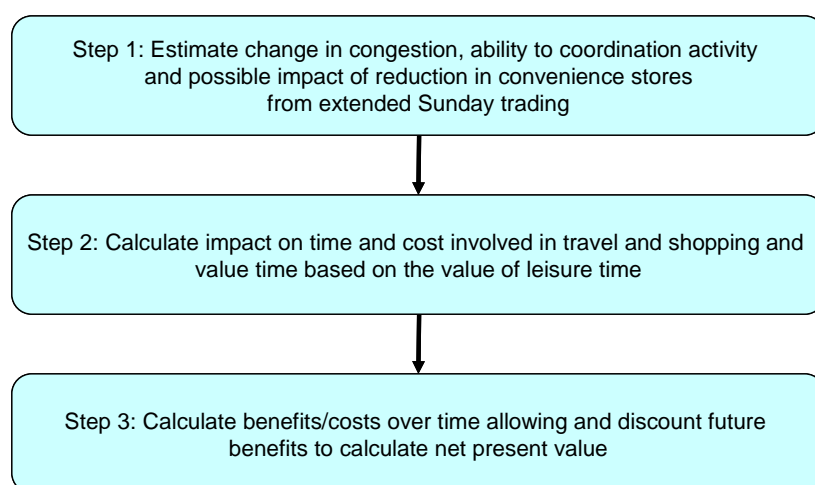
We provide quantification for the last three considerations above.⁶⁰ In considering coordination effects we consider wider impacts in forming a view about the likelihood of coordination problems and their consequences, so the time costs involved should be thought of as a proxy for a wider set of impacts.

Our overall approach in relation to calculating the cost-benefit impact of a change in customer convenience is summarised in Figure 4.3.

⁶⁰ We have not quantified the other two considerations due to data constraints.



Figure 4.3: Steps in calculating impact of change on convenience due to extended Sunday trading



In **Step 1** we assign probabilities that households will incur

- additional waiting before store opening on a Sunday
- extended queuing up to closure when stores are still busy and due to excess demand for parking etc

We estimate the time cost of congestion effects to calculate an overall value for the number of minutes lost to congestion due to current restrictions on Sunday trading for all households in England and Wales.

We also consider the possibility that limited Sunday trading hours increase the likelihood of additional shopping journeys due to difficulty in coordinating shopping and other activities on a Sunday, or in coordinating different shopping activities (for example at small and large stores). Coordination costs include the costs of mistakes whereby customers turn up early (or late) on a Sunday and find a store is closed. This is not infrequent, particularly on an Easter Sunday, in part because of a lack of awareness of the legal restriction on Sunday trading (one survey, by Him! Marketing, found that 40 per cent of respondents were unaware of the Sunday trading laws).

Finally, we estimate the potential cost in terms of convenience to some customers if the increase in capacity at large stores leads to the closure of some small stores. We use the cost of an online grocery delivery as a proxy for the convenience cost to such consumers (which might take the form of longer journeys and/or use of alternative transport rather than an online shop).

It is important to note that we do not quantify the possible benefits to consumers who chose to switch to large stores as a result of liberalisation and pay lower prices as a result. Information provided suggests that the price differential is around 10 per cent. The analysis of the impact of possible closure of small stores as a result of extended Sunday trading therefore provides a check on our calculation of net benefits rather than a full analysis of the impacts of customer switching and possible closure of some small stores.

To estimate the reduction in small stores we assume that the reduction in trade by small stores equals the reduction in the number of stores. The Association of Convenience Stores estimate the reduction in trade in convenience stores from liberalisation at 3 per cent (submission to DTI).



We also looked at additional sales on a Sunday that occur after 4pm compared to sales over the period 10am-4pm, and found that these account for 26 per cent of Sunday sales (see Figure 6.4). If Sunday were an average day this is equivalent to 3.7 per cent of weekly sales. For modelling purposes we therefore assume that the impact is in the range of 3-4 per cent.

In **Step 2** we convert time costs into money costs using the estimated value of leisure time used for transport planning purposes.

In **Step 3** we sum the money values over time and convert the sum to a net present value over 20 years. We also test the robustness of the analysis to plausible ranges in individual parameter values, and estimate the overall average time cost per household per week as a check on the plausibility of the assumptions.

Our detailed assumptions for modelling the value of changes in convenience are shown in Table 4.5.


Table 4.5: Detailed assumptions for modelling of consumer convenience

Parameter	Central assumption	Range	Source
GDP growth rate, discount rate, time frame and stores that open on Sunday - as in Table 4.4			
Population growth	0.5%		ONS Population Trends (2005)
Vehicle running costs	20 pence per mile		Automobile Association (2005)
Average vehicle occupancy	1.7 adults		National travel survey (2002)
Value of travel time savings (VTTS)	£4.79 per person per hour (2005), growing at rate g		Department for Transport (2003)
Wait premium for queuing	2.5 times VTTS		Department for Transport (2004) Transport Analysis Guidance and Boardman <i>et al</i> (2006)
Income elasticity of VTTS	0.8	0.8-1.0	Department for Transport (2004) Transport Analysis Guidance
Number of households in England and Wales	21.53 million (2006)		ONS Regional Trends 38
Growth rate in number of households	0.68% pa		ONS Regional Trends 38, Household projections in E&W 2006-2021
Probability household shops on Sunday	20%		Judgement based on sales proportion on Sunday and ONS survey for DTI
Probability of additional trips as proxy for coordination problems and inconvenience	20%	15%-25%	Judgement – see text
Average return distance to retailer	8.4 miles		National travel survey (2002)
Return travel time to retailer	34 minutes		National travel survey (2002)
Additional time spent waiting for store to open and probability	20 minutes with probability 3%	1%-5%	Judgement based on early sales in Scotland versus England and Wales
Additional in-store peak queue and probability	5 minutes with probability 30%	3-7 minutes 20%-40%	Judgement based on fraction of sales in last 2 hours on Sunday
Additional car park queues and wait/divert time	5 minutes with probability 30%	3-7 minutes 20%-40%	Judgement based on fraction of sales in last 2 hours on Sunday
Lost convenience due to possible reduction in total store numbers	Reduction in small stores 3.5%, probability made worse off 10%, cost per person shop £5	Reduction in small stores 3%-4%, probability made worse off 5%-15%	See note below regarding reduction in stores. Probability consumers made worse off is a judgement (note that some consumers must also be better off – otherwise there would be no impact on small stores). £5 based on cost of internet delivery



5 Results

5.1 Results of analysis for full liberalisation of Sunday trading

We calculate net benefits over 20 years from the change in unit costs and change in convenience from liberalisation of Sunday trading. The usual approach with cost benefit analysis is to discount the stream of costs and benefits allowing for social preferences regarding benefits now versus in the future, and to add the discounted values up to produce a net present value (NPV).

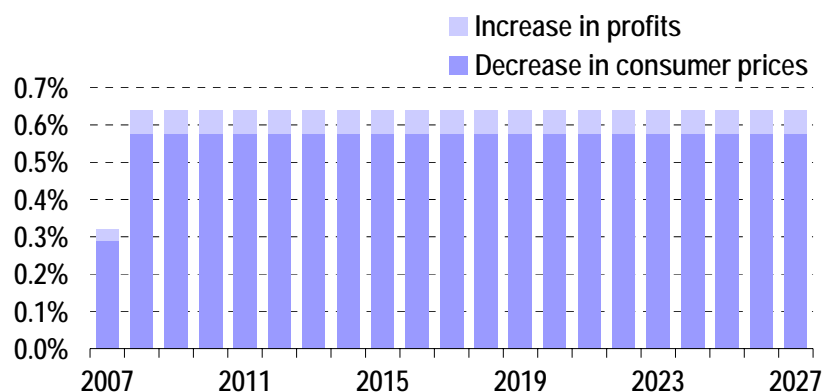
We present the calculated NPV and also provide

- estimates of the impact on prices and profits over time
- the annual value of benefits
- the discounted present value of annual benefits and the equivalent annual benefit per household (the annuity equivalent of the NPV over 20 years).

Figure 5.1 shows the reduction in costs to retailers broken down into a reduction in prices to consumers and an increase in profits to retailers over time (note that the magnitude of the equilibrium impact is the same as the calculation set out in Table 4.3). In practice, an initial reduction in costs might be held for a period and then passed onto to consumers via lower prices and improved service. Given an overall inflation objective of 2 per cent, a reduction in retail prices would not necessarily be expected to lower inflation overall. Rather, marginally more relaxed monetary conditions consistent with price stability might be anticipated. In turn these would affect the overall economy, as discussed in Section 3.1.4.

Figure 5.1

Impact on prices and profits

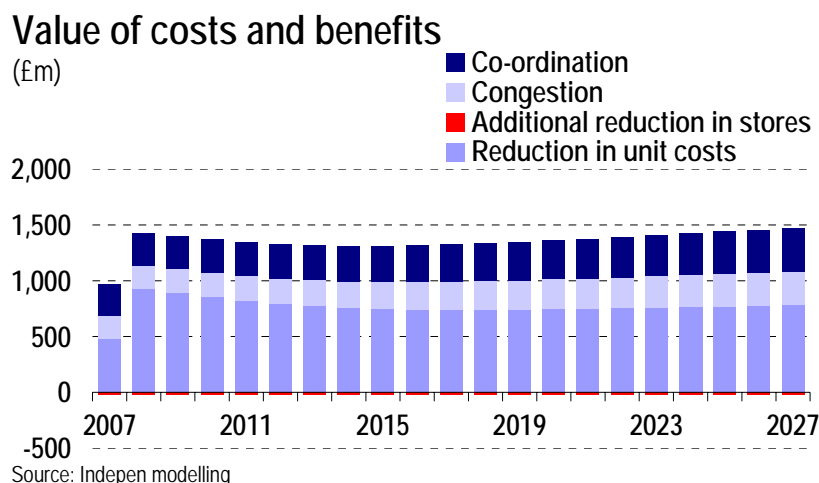


Source: Indepen modelling

Figure 5.2 shows the undiscounted real (i.e. in current money terms) value of costs and benefits over time. The initial rise in net benefits arises as the increase in capacity due to extended Sunday trading is exploited by retailers resulting in increased capital efficiency (increased capital efficiency could be expected to result in deferral of new build, reallocation of demand across days of the week, and the exit of some existing capacity). The value of net benefits in each year then decreases due to the declining value of retail sales affected by the change in unit costs as a consequence of sales deflected to the internet. As growth in online sales slows over the medium term market growth again dominates.



Figure 5.2



Additional hours and capacity from extended Sunday trading would not only reduce unit costs, they would also reduce congestion at store opening and closing times, and improve the scope to coordinate shopping and other activities on Sundays. These effects, like the improvement in unit costs, are permanent and apply to existing and new stores.

To the extent that increased capacity results in the additional exit of existing retailers some consumers will be better off (those who voluntarily switched their trade), whilst some could be worse off (those who would have preferred to keep their custom at the existing retailer/s). We allow for potential costs of the latter – shown as “additional reduction in stores” in Figure 5.3 - by assuming some customers are worse off by an amount of £5 per week, calibrated according to the approximate cost of an online grocery delivery. Distributional impacts on the retail sector and customers are discussed further in Section 6.7.

Figure 5.3 shows the present value of costs and benefits over time. The present value of net benefits in each year decreases faster than the undiscounted value shown in Figure 5.2 due simply to the additional impact of discounting at 3.5 per cent per annum.

Figure 5.3

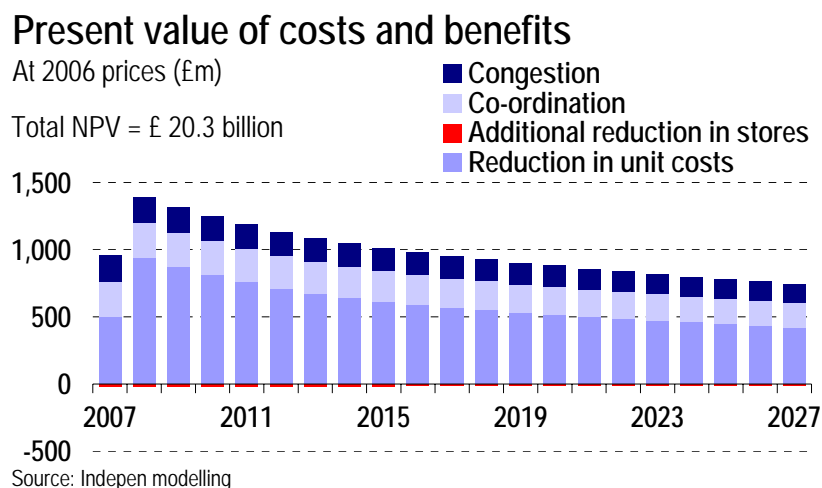




Table 5.1 summarises the net present value for our central case assumptions from fully liberalising Sunday trading, along with the equivalent annuity value and the equivalent annual benefits per household for each of the categories of costs and benefits. We also show the calculated time saving per week for coordination and reduced queuing.

Table 5.1: Calculated net present value from full liberalisation of Sunday trading

Category	Net present value (£ billion)	Equivalent annual annuity (£ billion)	Annual benefit per household (£)	Time savings per household that shops on a Sunday (minutes per week)
Reduction in unit costs (and lower prices and/or increased profits)	12.5	0.9	39.5	NA
Benefits from ability to co-ordinate trips	4.6	0.3	14.6	6.8
Benefits from reduced congestion	3.5	0.2	11.0	3.6
Costs due to additional reduction in local stores	-0.3	0.0	-0.9	NA
Total	20.3	1.4	64.1	10.4

5.2 Results of analysis of partial liberalisation scenarios and Easter Sunday liberalisation

We consider the following partial liberalisation scenarios.

- Partial liberalisation to allow trading any time within the current 10am-6pm interval (rather than restricting trading to 6 hours within this interval)
- Partial liberalisation of trading hours to allow trading anytime between 9am-7pm (more “typical” of a Saturday)
- In addition to the above, liberalisation of trading on Easter Sunday.

Partial liberalisation of trading hours on a normal Sunday would have the following effects relative to full liberalisation.

- The reduction in unit costs, and therefore the increase in benefits from lower prices and higher profits, is proportionately smaller the smaller the increase in hours of trade and therefore sales (there is a second order impact on the cost structure which means the impact is not strictly proportional).
- The reduction in queuing and coordination benefits will be smaller for partial liberalisation – though both of these might conceivably be non-linear relative to the increase in sales.
- The impact on small stores who are substitutes for large stores depends on the extent and timing of current benefits from out of hours trading rather than the magnitude in the increase in trade at large stores due to extended Sunday trading *per se* (some of which could come from other days or growth).



In considering liberalisation of Easter Sunday we consider the case of full liberalisation. Full liberalisation involves a larger increase in capacity than liberalisation of a normal Sunday since the starting point is no opening for large stores.

In terms of convenience the effect on queues is irrelevant, whilst coordination benefits – including a reduction in mistakes in terms of customers turning up when stores and garden centres are shut – would be larger. Table 5.2 shows our assumptions in terms of different categories of benefits relative to full liberalisation of a normal Sunday.

Table 5.2: Benefits and costs relative to normal Sunday full liberalisation calculation

Category	10am-6pm	9am-7pm	Easter Sunday
Reduction in unit costs (and lower prices and/or increased profits)	75%	85%	250% ⁶¹
Benefits from ability to co-ordinate trips	75%	85%	100%
Benefits from reduced congestion at stores (we do not assess changes in road congestion which, for a given number of shopping trips, would be spread out and therefore reduced overall)	75%	85%	None
Costs due to additional reduction in local stores	75%	85%	100%

The fraction of full liberalisation benefits for the 10am-6pm and 9am-7pm windows with no time limit are based on the sales profile on Sundays in Scotland. Easter Sunday benefits relative to a single normal Sunday are calculated assuming an increase from 0 to 14 per cent of weekly trade, versus an increase of 4 per cent for liberalisation of a normal Sunday i.e. Easter Sunday trading would involve an increase in capacity 250 per cent greater than liberalisation of a normal Sunday.

Table 5.3 shows the calculated present values based on the assumptions in Table 5.2.

Table 5.3: Calculated net present value from partial liberalisation and full liberalisation of Easter Sunday (all in £ billion)

Category	Full liberalisation	10am-6pm	9am-7pm	Easter Sunday
Reduction in unit costs (and lower prices and/or increased profits)	12.5	9.4	10.3	0.86
Benefits from ability to co-ordinate trips	4.6	3.5	3.9	0.18
Benefits from reduced congestion	3.5	2.6	3.0	0.0
Costs due to additional reduction in local stores	-0.3	-0.2	-0.3	-0.01
Total	20.3	15.2	16.9	1.03

The benefits for Easter Sunday trading should also be compared with the benefits for full liberalisation converted to a weekly basis. On this basis full liberalisation yields a total net present value of £398

⁶¹ If Sunday sales increase from 10 to 14 per cent of weekly sales (+4%) for liberalisation of a normal Sunday, and Easter Sunday trade is the same as a normal Sunday, then the increase is from 0 to 14 per cent i.e. 3.5 times or 250 per cent more than 4 per cent.



million per week (dividing by 51 weeks), whilst liberalisation of Easter Sunday yields a net present value of £1.03 billion.

5.3 Sensitivity analysis

We consider whether or not the various assumptions we make are conservative in the sense that they provide a high level of confidence that liberalisation would offer net benefits, taking account of the inevitable uncertainties involved.

5.3.1 How robust are the conclusions?

A number of key assumptions were chosen on a conservative basis, in other words if anything they understate the net benefits. In particular:

- the assumption of constant overall retail sales is conservative since any shift in consumption towards retail sales reflecting consumer preferences would confer a net benefit
- the assumption that all growth in volumes comes from market growth is conservative since, if additional sales at more efficient retailers come from less efficient retailers, benefits would be greater in magnitude and potentially earlier
- the assumption that labour inputs increase in proportion to growth in sales volumes is conservative since some labour costs may increase less than proportionately

However, a number of assumptions involve judgement. To test the robustness of the analysis to variations in these assumptions we specify ranges for individual parameters (shown in Table 4.4) and test the variation in our calculated NPV to changes in these assumptions both one by one and together.

5.3.2 Sensitivity to changes in individual assumptions

It is common practice to consider the sensitivity of NPV estimates to the discount rate. However, the discount rate in our model is dependent on the economy wide growth rate, following the HM-Treasury methodology and so the calculated NPV is insensitive to the GDP growth rate since this impacts both the value of retail sales and the value of time savings, which almost fully offset the change due to the discount rate.⁶²

We have also calculated the impact on the total NPV from a 10% reduction in each of the assumptions taken in turn.

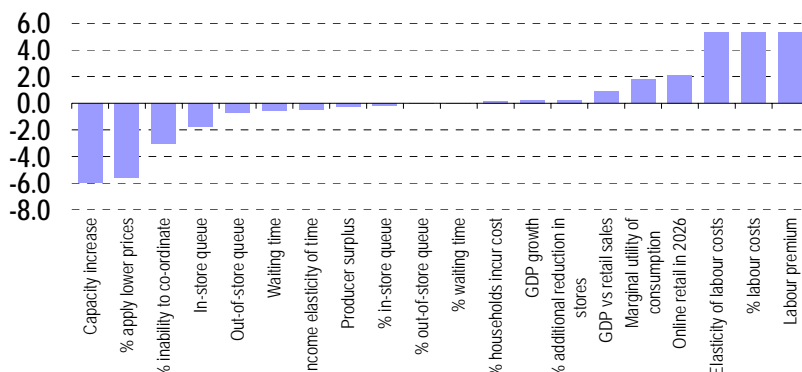
⁶² In continuous time $NPV = \int_0^T e^{gt} e^{-(1.5+1.0g)t} dt$, where $r=1+1.5g$ is the HM-treasury discount rate and g is the economic growth rate. Solving for the NPV gives $NPV = -\frac{1}{1.5} \{e^{-1.5T} - 1\}$ which does not depend on g . We find a very modest sensitivity to g since the value of time is scaled by $0.8g$ rather than $1.0g$.



Figure 5.4

Impact of -10% change in central estimates

% change in total NPV costs and benefits



Source: Indepen modelling

The top five assumptions in terms of their impact on the calculated net present value are therefore the extent of capacity increase, the proportion of retail sales subject to lower prices as a result, the extent of the Sunday wage premium, the proportion of labour costs in overall costs and the increase in labour inputs to support increased sales. We also estimated the minimum and maximum net present values by shifting all the parameters to their upper or lower limits. We obtained a range from £10 billion to £40 billion. However, a better approach is to consider the distribution of net benefits.

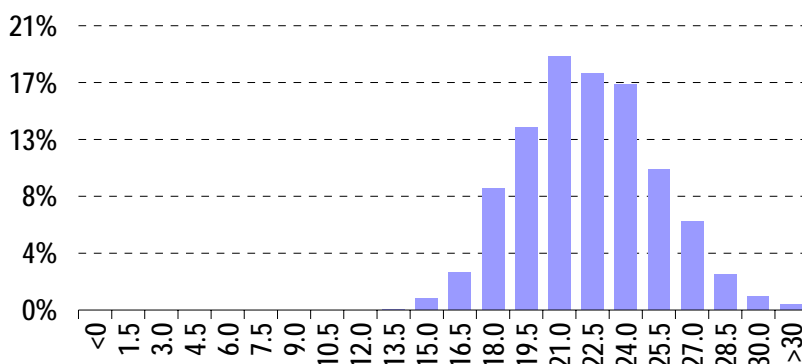
5.3.3 Monte Carlo analysis

We apply Monte Carlo analysis, a technique discussed in the HM-Treasury “Green Book”, to analyse the impact of changes in assumptions jointly to generate a probability distribution for the calculated net present value. Our Monte Carlo analysis, involving a large number of iterations of the model drawing individual parameters randomly from the distributions in Table 4.4 and Table 4.5, generated the frequency distribution for the net present value shown in Figure 5.5.

Figure 5.5

Distribution of net present value

At 2006 prices (£bn)



Source: Indepen modelling



The distribution of net benefits is always substantially positive given variations in the assumptions. The approximate 95 per cent confidence interval for the net present value based on this distribution is in the range £16 to £28 billion.



6 Qualitative and distributional impacts

Productivity growth – the engine of economic growth – necessarily involves “creative destruction” and therefore distributional impacts. In this section we examine possible impacts of liberalisation of Sunday trading additional to those quantified in Section 5. These include possible impacts on competition, and distributional impacts including the impact on low income consumers, the impact on employment and employees, the impact on the environment, rural consumers, private health and small and large stores (and consumers).

6.1 Impact on competition

There are a number of potential effects on the level and nature of competition in the market. Removing the constraint on Sunday trading would increase capacity and therefore competition in the short run, in particular, it would increase competition between stores in particular locations that are currently congested (since the incentive to attract customers via improved service and lower prices is diminished when the full capacity of stores is reached).⁶³

Competition is distorted by the current restriction in a number of ways. In particular, online sales are advantaged relative to conventional retail sales, sales from small stores (under 280m²) are advantaged relative to larger stores and competition in the leisure activities market is distorted between retailers such as Hobby Craft and garden centres and other leisure activities.

Such distortions will result in an inefficient use of resources and welfare losses to the extent that sales are promoted via particular channels which would not necessarily offer the combination of convenience and cost in the absence of a restriction on Sunday trading by large stores, and consumer preferences in terms of their choice of leisure activity are frustrated. There may also be impacts on the overall level of competition. In particular, the size threshold acts as a barrier to growth or experimentation with intermediate stores sizes somewhat over the threshold (since the opportunity for extended opening on Sunday would be lost).

Finally, we note that to the extent that competition concerns arise – irrespective of whether Sunday trading is liberalised or not – the Office Fair Trading and the Competition Commission provide a framework for addressing such concerns. The groceries sector has been the subject of active scrutiny in recent years.

In 2000 the Competition Commission reported on the supply of groceries from multiple stores following a referral from the OFT.⁶⁴ The Competition Commission found that the industry is currently broadly competitive and that, overall, excessive prices are not being charged, nor excessive profits earned. In relation to concerns regarding buyer power a code of conduct was proposed and implemented, and in certain circumstances the Competition Commission proposed that the Director General of Fair Trading’s approval should be required for particular parties to be allowed to acquire or develop large new stores.

In 2005 the Competition Commission reviewed the proposed acquisition by Somerfield plc of stores of Morrison Supermarkets plc.⁶⁵ The Competition Commission concluded that the completed acquisition by Somerfield plc of 115 stores and other assets from Morrison Supermarkets plc may be expected to

⁶³ Congestion is exacerbated by planning restrictions on the construction of new stores and restrictions on the number of car parks that can be provided per m² of store area under ODPM “Planning Policy Guidance:13 Transport”.

⁶⁴ Competition Commission. 2000. “Supermarkets: A report on the supply of groceries from multiple stores in the United Kingdom.” http://www.competition-commission.org.uk/rep_pub/reports/2000/446super.htm

⁶⁵ Competition Commission. September 2005. A report on the acquisition by Somerfield plc of 115 stores from Wm Morrison Supermarkets plc. http://www.competition-commission.org.uk/rep_pub/reports/2005/fulltext/501.pdf



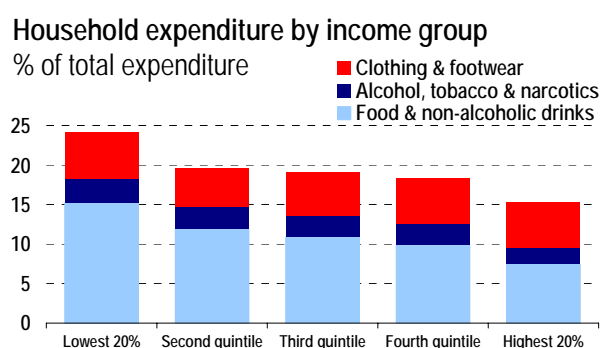
result in a substantial lessening of competition in 12 local grocery retail markets in Great Britain. In March 2006 undertakings were agreed that commit Somerfield to selling 12 stores to purchasers approved by the Competition Commission. This case demonstrates that the action under competition law is not just a theoretical possibility in addressing competition concerns.⁶⁶

In March 2006 the OFT proposed referring supermarkets to the Competition Commission.⁶⁷

6.2 Impact on low income consumers

Overall low income consumers spend proportionately more of their income on retail sales as shown in Figure 6.1, and would therefore be expected to benefit more than proportionately from liberalisation of Sunday trading.

Figure 6.1



Those households with incomes in the lowest 20 per cent range spend on average 24 per cent of their income on food and non-alcoholic drinks, alcohol and tobacco and clothing and footwear; whilst those households with incomes in the highest 20 per cent range spend on average 15 per cent on the same goods. Low income households would therefore benefit disproportionately from lower retail prices.

In a study of the consumer benefits from increased competition from the entry of supercentres (in particular Wal-Mart) in the US retail market, Hausman and Leibtag (2005) found that poorer and minority households benefited the most.⁶⁸ Less well off households, with incomes below \$10,000, benefited approximately 50 per cent more than the average for all households.

Under the HM-Treasury Green Book methodology additional weight is proposed in relation to benefits to low income earners (on the assumption that less well off households have a higher marginal utility of income). Whilst we do not quantify the impact of allowing for distributional weights, there are good grounds for thinking that low income households would benefit disproportionately.

6.3 Impact on employment and employees

Our modelling assumption is that employment in retailing changes proportionately with changes in retail sales in response to liberalisation of Sunday trading. In addition, we assume that overall retail

⁶⁶ Competition Commission. 10 March 2006. "Acquisition by Somerfield Plc of certain retail stores and other business assets of WM Morrison supermarkets Plc."

http://www.competition-commission.org.uk/inquiries/ref2005/somerfield/pdf/acceptance_final_undertakings.pdf

⁶⁷ Office of Fair Trading. March 2006. "Grocery market - proposed decision to make a market investigation reference."

⁶⁸ Hausman and Leibtag. October 2005. "Consumer benefits from increased competition in shopping outlets: measuring the effect of Wal-Mart." MIT and Economic Research Service, US Department of Agriculture.
http://econ-www.mit.edu/faculty/download_pdf.php?id=1243



sales do not change. These two assumptions imply no change in overall employment in the retail sector.

We set out our reasoning behind this conclusion, in Section 3.1.2, that even were overall employment in the retail sector to change it would not necessarily impact on aggregate economy wide employment and unemployment. Cabinet Office RIA guidance in relation to employment impacts supports this position:

“...effects on jobs or foreign trade are not normally relevant, since displaced workers will find other jobs and trade will be brought back into balance by changes in domestic or foreign demand or prices...”

The 1994 study by the IFS into the economic impact of alternative Sunday trading arrangements adopted a similar position – it concluded that deregulation would result in a shift of employment out of retailing, but that:

“the increased efficiency of the retail sector will contribute to overall productivity growth, and will tend to increase Britain’s competitiveness and increase employment and/or real incomes for everyone.” Page 22

In terms of both retail sector and economy wide impacts there are, however, additional complexities that could lead to net impacts on employment.

Within the retail sector if overall sales grew then there would be a net shift of employment into retailing (and away from those sectors of the economy where consumption fell). In addition, if in addition to the increase in retail capacity from liberalisation the tendency for more productive retail outlets to replace less productive retail outlets were accelerated there would be a net shift of employment out of retailing. Neither of these additional considerations on their own would lead to a net impact on employment in the economy as a whole.

A more complex picture emerges when account is taken of the types of employees likely to be attracted by extended Sunday trading. Large retailers offer considerable flexibility in terms of how their labour requirements are met in terms of part time work and flexible hours of work. An increase in Sunday trading would therefore be expected to disproportionately attract employees from categories such as single parents, students and others who have greater opportunity to work on Sundays.

We also heard of specific examples of recruitment of those who might otherwise have difficulty finding work, particularly from “Jobcentreplus”. An expansion of Sunday trading could therefore contribute to an increase in overall labour force participation.

In terms of the impact on employees, some prefer to work on Sundays, and of those who currently work on Sundays one would also expect some to wish to work longer hours. In addition, the Sunday Trading Act 1994, along with internal company human resource policies, provide protection against employees been pressured to work on Sundays. However, as reported in Figure 2.3, there are a number of disputes regarding requirements to work on Sunday every year. It is possible that incidents of this sort would increase with extended Sunday trading.

Overall we consider that allowing extended Sunday trading at large stores

- would provide additional valued opportunities for existing and new employees to work on Sundays
- would have an indeterminate but small impact on employment in the retail sector (with productivity effects and overall sales effects tending to offset one another).
- would have a neutral to positive impact on economy wide labour participation rates.



6.4 Impact on the environment

Retail activity involves external impacts on the environment in terms of energy consumption and journeys to stores etc. Some of these external impacts are internalised via existing taxes (for example, energy and fuel taxes) and other regulatory controls. To the extent that external impacts are internalised they are reflected in market prices and captured in our cost benefit analysis, and no additional allowance should be made for them.

We have assumed that overall retail sales would remain constant. Even if they did not, other forms of consumption that may have a smaller or larger environmental impact would be reduced.

Increased capacity utilisation for retail stores would reduce energy and land use per unit of sales since these inputs are required more or less independent of opening hours. Increased productivity and a reduced environmental impact therefore tend to go hand-in-hand.

The improved ability to coordinate shopping and other activity journeys with extended Sunday opening would also be expected to result in environmental benefits. In addition, the redistribution of traffic away from current peaks with extended opening would increase congestion and emissions at some times and reduce it at others.

Overall, since congestion increases more than proportionately with traffic volumes, a redistribution of congestion away from peaks should reduce congestion and emission overall. We have quantified the vehicle running costs and time savings from improved coordination and reduced in-store congestion. We have not quantified possible benefits from reduced traffic congestion.

6.5 Impact on private health

Limited Sunday trading hours limit the scope to purchase healthy fresh produce both in terms of access to supermarkets, and the availability of fresh produce within supermarkets at certain times on Sundays. Restricted Sunday trading hours increase in-store congestion making it more difficult to maintain target levels of availability for fresh produce, compounded by the reduced opportunity to special off excess fresh produce leading to reduced availability and/or increased wastage.

A study by the Food Standards Agency (FSA) in 2004 on whether “food deserts” exist found that whilst some groups were disadvantaged in terms of access to healthy food, statistical analysis failed to show that price and availability in shops play a significant role in predicting the healthiness of consumers’ diets overall.⁶⁹

The FSA study also found that, of those who do their shopping on foot – 16 per cent of the total number of households surveyed - local retail provision may be an important determinant of diet. This group had a relatively poor diet, including low fruit and vegetable consumption. Mintel’s December 2005 report on convenience retailing noted that the entry of two of the big supermarkets into the convenience store market, and the growth of symbol groups, had raised the bar with convenience stores more inclined to offer fresh foods.

Supermarkets are increasingly a source of prescription medicines, optical care and potentially general practitioner primary care services. Restricted Sunday trading hours limit the scope for individuals to access these services. Further, current policy allows certain pharmacies to provide NHS services without having to go through the usual regulatory hurdles, including where they open for at least 100

⁶⁹ Food Standards Agency. May 2004. “Do food deserts exist? A multi-level, geographical analysis of the relationship between retail food access, socio-economic position and dietary intake.”



hours per week and undertake to provide services the Primary Care Trust has specified (this applies in England, in Wales enterprises need to apply to the Welsh Health Board).⁷⁰

In some instances, the restriction of trading hours for large stores to 6 hours on Sundays may make it difficult for stores to meet this criterion since they would have to open for at least 15.75 hours on every other day of the week.

6.6 Impact on rural consumers

We are interested here not in the question of whether there are differences between rural and urban areas, which there are undoubtedly are, but in possible differential impacts of liberalisation of Sunday trading.

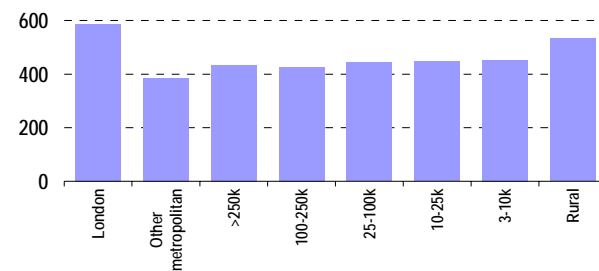
One possibility is that average income differences would have an impact, since as discussed in Section 6.2 there are grounds for thinking that low income consumers would benefit more relative to high income consumers from liberalisation of Sunday trading.

Figure 6.2 shows average weekly household incomes in rural and other areas for Great Britain as a whole based on ONS data, which defines rural areas as those with a population less than 3,000 people.⁷¹ Rural households have higher incomes than all urban groups except London. There may therefore be grounds for concluding that rural households would benefit relatively less from lower food prices than urban households.

Figure 6.2

Household disposable income

£/week, by location (population)



Source: ONS Family Spending 2004-05

Pricing at supermarkets is in general national, so the impact of any change in costs and prices as a result of liberalisation of Sunday trading will benefit both rural and urban consumers. It is nevertheless possible that differences in consumption patterns between rural and urban areas would introduce a differential impact for a common price change.

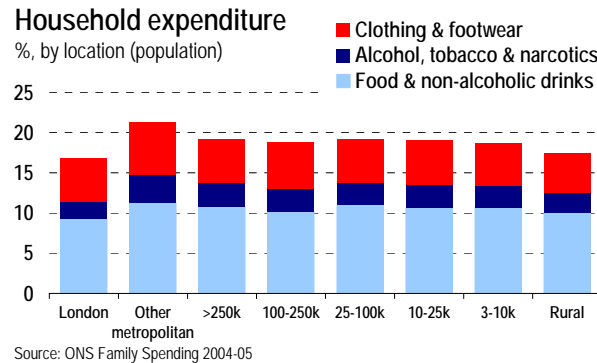
Figure 6.3 shows that differences in consumption patterns by location are relatively modest, and London and rural areas have almost identical expenditure patterns in the categories considered.

⁷⁰ Department of Health. August 2004. "Better access to pharmacies and more choice for patients." http://www.dh.gov.uk/PublicationsAndStatistics/PressReleases/PressReleasesNotices/fs/en?CONTENT_ID=4087902&chk=n7VbCg

⁷¹ Office of National Statistics. "Family expenditure survey" <http://www.statistics.gov.uk/statbase/ssdataset.asp?vlnk=7606&More=Y>



Figure 6.3



Differences in travel patterns could impact on the costs and benefits of liberalisation since there are significant differences in car ownership and use, and in average trip length between rural and urban households. In particular:⁷²

- nearly 40 per cent of households in London and the metropolitan areas do not have a car, compared with only 15 per cent in rural areas
- the number of trips per person per year is similar though rural people make longer trips (6.9 miles per trip for shopping versus an average for all areas of 4.2 miles)
- average distance travelled overall increased by 5 per cent since 1989/91 but decreased by 3 per cent in rural areas
- in 1999/01 82 per cent of households lived within 13 minutes walk of a food store, reducing to 59 per cent in rural areas

In addition to the above information, the Department of Enterprise, Trade and Employment in Ireland evaluated claims regarding access to stores in the UK in 2005 in relation to a review of the 1987 Groceries Order (which aimed to protect independent outlets from anti-competitive pricing behaviour, and which the government decided to repeal).⁷³ Chapter 10 of the report examined claims by “Ghost Town” Britain that access to rural stores is poor in England and concluded that:

“...figures suggesting that 7 out of 10 towns and villages in the UK have no shop are hopelessly wrong and have no basis in fact. The statistic is a serious and manifest misrepresentation of the facts...Almost 87% of rural households in England live within 4km of a petrol station – most of which have a convenience store attached. 79% of rural households in England live within 4km of a supermarket.” Page 162

Car parks at some large stores become congested, particularly on Sundays when trading hours are restricted. Car park size is also restricted relative to store size under Planning Guidance 13 which applies the same standard to rural and urban areas. This allows 1 space per 14m² of store floor area

⁷² Department of Transport. December 2002. “Revised national travel survey data for urban and rural areas.”

http://www.dft.gov.uk/stellent/groups/dft_transstats/documents/page/dft_transstats_507680.pdf

Department of Transport. January 2003. “Travel in urban and rural areas of GB – personal travel factsheet 11.”

http://www.dft.gov.uk/stellent/groups/dft_transstats/documents/page/dft_transstats_508288.pdf

⁷³ DETE. November 2005. “Restrictive practices (groceries) order 1987 – a review and report of public consultation process.”

<http://www.entemp.ie/commerce/consumer/groceriesorderreport.htm>.



for food retail and 1 space per 20m² for non-food retail (for premises over 1,000m²), unless the applicant has demonstrated that a higher level of parking is needed.⁷⁴

To the extent that these constraints bind in rural areas they can be expected to result in greater car park congestion in rural areas, given the greater dependence on car use. This would act to increase the benefits to rural households from relaxation of Sunday trading restrictions. In addition, in relation to the ability to coordinate different trips on a Sunday involving shopping and other activities, restricted Sunday trading could be expected to have a greater impact on rural households whose average journey distance is greater.

6.7 Impact on small and large stores, and customers

The potential impact of extended Sunday trading needs to be disentangled from underlying changes in the sector which are ongoing. Whilst large stores and supermarkets increased their market share decade by decade over the past century, recent evidence points to growth in smaller stores that offer convenience and/or specialisation.

Real incomes have grown and the pattern of time pressures on households during the week has changed significantly over the past decade or two. Historical trends do not necessarily provide a good guide to the future. For example, the growth in online sales is a “disruptive” influence for the sector that may alter historical trends, for example, if online sales were to substitute for “commodity” purchases from large stores, specialist shopping might become increasingly local in character.

Nevertheless a change to the cost structure of large retailers due to extended Sunday trading can be expected to have some impact on other retailers. Those stores over 280m² that extend their opening hours and achieve higher sales volumes over the week as a whole a result will experience a reduction in unit costs which will feed into profits and lower prices. To the extent that reduced unit costs are passed on as lower prices an impact on other stores – small and large – can be anticipated to the extent that they compete in the same market.

In the short term, if additional sales do not come from sales at the same store at other times, then it is likely that they come from sales at other stores (or from other forms of consumptions or savings – though we consider this less likely). Over time sales could also come from market growth rather than other stores i.e. ultimately they come from new capacity that can be deferred.

In terms of the impact on other retailers it is important to distinguish those stores that are complements to large stores and those stores that are substitutes. Stores that depend on the footfall generated by large stores on the High Street or in shopping malls may benefit from liberalisation of Sunday trading hours, whilst those stores who are particularly dependent on out of hours sale of similar goods to large stores could be expected to suffer a detriment. The possibility that small and large stores can be complements is illustrated by the following letter to the Evening Standard in March 2006:⁷⁵

“What I hope to see in Crystal Palace is a new supermarket to replace the former Safeway which closed three months ago after new owner Morrisons decided it was a branch it was going to axe. The supermarket used to attract more than 42,000 customers a day from far afield, and many of these supported the local shops. I am on the committee of the local Phoenix Trust charity and know through events we host how much local businesses have suffered since Safeway closed. The bookshop, shoe store, pubs and charity shops have all seen their trade diminish by between

⁷⁴ ODPM. “Planning Policy Guidance:13 Transport – Annex D Maximum Parking Standards.”; and “Managing travel demand.” Paragraph 54. http://www.odpm.gov.uk/index.asp?id=1144023#P347_97683

⁷⁵ Evening Standard. 9 March 2006. Letter to the editor from M Felberg, Crystal Palace.



25 and 50 per cent. Even businesses which are meant to be in competition with the supermarket, such as the local newsagent, have suffered."

Evidence from the Association of Convenience Stores illustrates the importance of 'out of hours' trading hours for small shops. Figure 6.4 shows an average pattern of trade on Sunday for independent convenience stores, as well as for an individual independent retailer (based on two separate data surveys). The data suggest that post-4pm trade on Sunday is particularly significant for independent convenience shops.

Figure 6.4

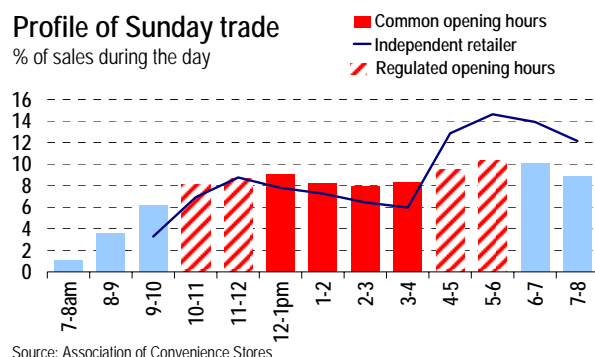


Figure 6.4 shows the weekly pattern of sales for a symbol group. Saturday makes up a greater proportion of weekend trade than Sunday, despite the current restriction on Sunday trading.

Figure 6.5

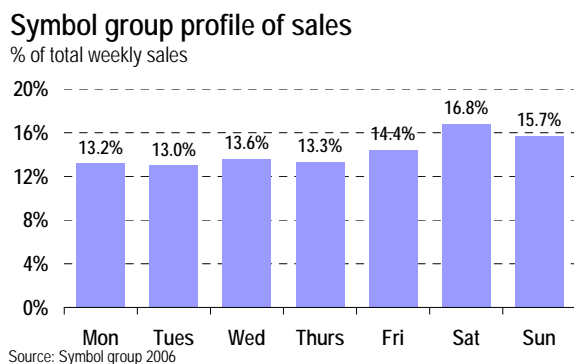
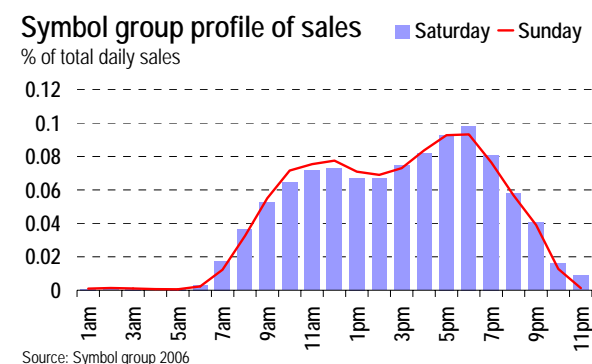


Figure 6.6 shows the daily profiles for Saturday and Sunday for the same symbol group.



Figure 6.6



It is also important to distinguish independent retailers from small retailers. The latter group has experienced growth in recent years, whilst the former group has seen their numbers decline (both through exit and acquisition by signature store groups). Increased competitive pressures on independent grocers has for example, it is argued, come in part from the entry of the large supermarkets into the convenience store market for example.

Clearly there are potential impacts on different categories of stores from extended Sunday trading. Table 6.1 provides a summary of possible impacts on retailers.

Table 6.1: Potential winners and losers in terms of stores from extended Sunday trading

	Winners	Losers
Large store	Extend opening and increase total trade, particularly stores with low labour cost share and high Sunday demand. In particular “recreation” related stores such as garden centres, hobby stores and DIY.	Either don't extend hours or see little sales gain, face tougher competition from large winners.
Small store near large store	Complementary to nearby large retailer gain from increased footfall, in particular small retailers in shopping centres	Substitute for large nearby retailer who may lose current out of hours sales
Small store away from large store	Lower likelihood large store opens small format store nearby and deferment of additional large format stores	Substitute for large nearby retailer under greater price pressure from online/small chain with prices linked to large retailer
Supply chain for small stores	Those supplying complementary stores gain	Those supplying stores that are substitutes lose
Web based retailers	Lower overall cost for those who utilise bricks and mortar retail premises to fulfil online orders	Marginal loss for pure internet model since must now compete all day Sunday with bricks and mortar

Note: Whilst this table identifies potential winners and losers there will be examples where benefits to large stores from liberalisation are unlikely to have any significant impact, negative or positive, on small stores. For example, where the small stores do not currently open on a Sunday and purchasing behaviour is impulse driven.

While the impact on retailers is clearly of interest to a regulatory impact assessment, negative impacts on particular retailers may or may not imply negative impacts on society as a whole or on consumers.



The competitive process necessarily involves winners and losers. Indeed, some stores would not be losers unless some of their customers preferred other retailers on price, quality and convenience grounds.

The entry of supermarkets into the convenience store market, and the growth of multiples, has arguably raised standards of service and reduced prices in the convenience store market. The Verdict report on neighbourhood retailing (2006) states that:⁷⁶

“the impact of Sainsbury’s and Tesco’s increasing pressure has raised competition and retail standards. The multiple retailers have brought fresher food, new ranges, lower prices, better store environments and increased scale to the neighbourhood and it has forced smaller players to improve to keep up.”

Evidence for Scotland versus England and Wales shows that there average travel times and distances involved in shopping are almost identical despite full liberalisation of Sunday trading in Scotland over an extended period of time (see Table 3.1 and Table 3.2). This strongly suggests that there is little difference in the spatial distribution of retail outlets relative to the location of households and that, overall, households are not inconvenienced by the structure of retailing that exists in Scotland under liberalisation.

Some customers could nevertheless be worse off as a result of market adjustment, for example, those customers who preferred a particular small retailer who exits the market or chooses not to open on Sunday. These customers may find that the loss of convenience more than offsets the potentially lower prices of alternatives. Some customers may also be made worse off if the opening of a new large or small store in their vicinity is delayed by the increase in capacity made available by extended Sunday trading.

⁷⁶ Cited in OFT. 2006. Paragraph 4.16.



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Appendix A: Terms of reference

Project scope for a research study to investigate the economic costs and benefits of easing Sunday trading restrictions in England and Wales

A.1 Introduction

In 1994 the Government introduced the Sunday Trading Act which enabled large shops⁷⁷ to open (for the purpose of serving retail customers) for up to 6 continual hours on a Sunday, between 10am and 6pm in England and Wales. It has been over 10 years since this liberalisation of Sunday trading law.

The Government is committed to evaluating the impact of all legislation and identifying areas of regulation that can be simplified, so that regulatory burdens on business can be reduced.

A.2 Objective

The central aim of this study is to evaluate the economic costs and benefits of easing or removing Sunday Trading restrictions in England and Wales, quantifying impacts wherever possible.

A.3 Scope of the Study

The research project will assess and, as far as possible, quantify:

The impacts of extending opening hours for large shops and the impacts of a complete removal of Sunday trading restrictions for large shops.

There are a number of potential impacts, which the study will take into consideration, these include:

- The effects on retail firms in general, in particular the impact on wage costs and other variable costs, sales levels, profits, employment and trading patterns.
- The impact on consumers, which includes analysing the distributional effect on consumer spending throughout the week if shopping hours on Sunday are increased; and any changes to the amount they spend on shopping within a week if shopping hours are extended on a Sunday. Other consumer impacts include assessing the extent of consumer benefits achieved through wider product choice and increased convenience.
- Impact on small firms and competition. It should be noted that a large sized business may have retail outlets that are defined as small shops⁷⁸.
- Impact on the labour market.
- Potential externalities that affect other areas of the economy. For example assessing the impact on suppliers and wholesalers of retail goods.

The DTI will be conducting other strands of cost benefit analysis along side the external research project. The above list should not be considered as an exhaustive list of the potential impacts on easing Sunday trading hours.

⁷⁷ A large shop is defined as a shop with an internal floor space greater than 280 square meters or 3,000 square feet. If the internal floor space is less than 280 square meters the shop is defined as a small shop.

⁷⁸ For example a large supermarket chain may have many outlets of which some may be classified as a small shop. Also conversely a small businesses may trade from a large shop. The analysis should bear this point in mind.



Appendix B: Previous cost benefit analysis

B.1 Institute of Fiscal Studies – Auld Committee Inquiry (1983)

The Institute of Fiscal Studies (IFS) analysis was commissioned by the Auld Committee as an economic review of proposals to amend the Shops Act 1950. The purpose of the review was to assess the likely economic effects of liberalised trading hours, in particular the effects on costs and prices, employment and the structure of the retail trade.⁷⁹

Based on a computer simulation of retailing cost structures, which included a data base of 150 model firms, the IFS estimated how retailing costs would be affected by an increase in hours of trading. The approach taken by the IFS measured the maximum impact on the structure of retailing which regulation or deregulation might have by comparing the structure of the retail sector as it would be if Sunday opening were generally permitted with that which would exist if Sunday opening were generally prohibited.

The IFS assumed that Sunday opening would be considerably less than universal even if it were permitted and that retailers decisions to open would be based on the actions of other traders. That is, stores would open if either other stores in their area opened or if key competitors opened. As a result, the IFS assumed that the likely outcome of deregulation would be that some, but not all, food retailers would take advantage of it; while in other areas of trading there would some areas where most stores were open while in others the majority were closed.

B.1.1 Short run impact

The IFS analysis distinguished between the short run and long run effects of deregulation, as well as between the experience of an individual retailer and that of retailing as a whole. The analysis suggested that most of the variable costs of retailing would increase with hours of opening and that labour costs, as the single most important element of costs for all retailers, would increase more than proportionally with hours of trading due to the presence of a significant Sunday wage premium. The IFS estimated that for an average shop, eight hours of Sunday opening (which would increase trading hours by around 13 per cent) would raise retailing costs in the short term by around 10 per cent. However, the IFS noted that the overall rise in retailing costs would be less than 10 per cent because not all retailers would open and because those that did would tend to have lower than average cost increases from doing so.

In considering the impact on retail sales, the IFS believed that it was unlikely that there would be an overall increase in retail sales commensurate with the short term increase in costs. However, the IFS also believed that there was clear evidence that Sunday trading would increase the sales of particular commodities and for individual retailers – the majority of these sales would be drawn from other commodities, other retailers, or other days of the week.

The IFS found that an immediate consequence of Sunday trading would be an increase in retailing costs per unit of sales and that the majority of this increase would fall on retail margins, rather than prices. The effect of extended trading hours would be to increase the effective capacity of the retail sector by more than it would increase the demand for its services and, in competitive conditions, this would eventually reduce profitability. The pressure on profitability and marginal retailing capacity would continue until, in the long run, overall capacity was reduced, by means of more rapid closure of secondary units and reduced investment in new stores by stronger traders and by exit from the

⁷⁹ IFS, p. 3



industry of weaker units. For these reasons, the IFS found that longer opening hours would likely lead to an acceleration of the trend towards the disappearance from the market place of independent traders and towards greater concentration among multiple retailers. For consumers, the IFS speculated that the greater choice of time introduced by Sunday trading could to some degree be offset by a reduced choice in retail establishments.

B.1.2 Long run impact

In the long run, the predicted reductions in capacity would have a beneficial impact on remaining retailers by lowering unit costs (through reducing capacity by more than any reduction in the volume of sales). The IFS considered that the majority of the decrease in unit costs would go into the restoration of retail margins as the costs of (a reduced number of) six and seven day traders would now be met from greater sales volumes. In the long run, the IFS expected that the rates of return from retailing would return broadly to their pre-deregulation levels.

The IFS also found that the effect of capacity changes would be to increase the efficiency of the retail sector based on two effects:

- 1 The trend from higher cost to lower cost retail outlets would be accelerated (although this would be modified by noting that high costs are often associated with higher quality of service);
- 2 The reduction in capital costs per unit of sales resulting from more intensive use of the 'plant' of retailing, which would now be available on a seven rather than six day basis.

However, the overall effect of lengthening shop hours on costs and prices in the long run would depend on a complex balance of factors. In particular, the mix of fixed and variable costs and whether potential Sunday trading attracted sales from what would otherwise be peak or off-peak shopping hours. The IFS considered that if Sunday sales were comprised mainly of what would otherwise be peak sales, then the scope for more efficient capacity utilisation would be relatively large (and vice versa).

To determine the likely origin on Sunday sales, the IFS commissioned a consumer survey, which suggested that Sunday sales would tend to be drawn disproportionately from existing peak shopping times – Friday for food and Saturday for non-food. This reflected the fact that it would be those whose shopping opportunities were currently most compressed who would find an extension to trading hours advantageous.

The IFS therefore found that, in the long run, taking account of effects on both fixed and variable costs, the overall effect of Sunday trading would be to effect a small reduction in the aggregate costs of the retail sector, specifically:

“...that this reduction would be around 2% of costs equivalent to about 0.6% of retail turnover. Although the increase in concentration in the retail sector might lead to a small rise in profitability, this cost reduction would, if fully passed on in prices, lower the Retail Price Index by approximately 0.4%.”⁸⁰

B.1.3 Impact on employment

The IFS analysis also considered the impact of Sunday trading on employment in the retail sector. The analysis found that in the short run, there were two conflicting effects:

- 1 Sunday working itself would generate additional employment

⁸⁰ IFS. *Ibid.* Page 13.



2 A reduction in weekday demand would reduce weekday labour requirements

In the long run, the predicted reductions in retailing capacity would affect employment. Again, there were two conflicting effects:

- 1 The closure of marginal retailing capacity would reduce job opportunities
- 2 There would be more jobs available in existing establishments.

Using the computer simulation model of retail costs the IFS estimated that:

“Sunday working itself might create 70,000-75,000 additional full-time equivalent jobs on Sunday itself, with some further 20,000 further jobs arising from the weekday consequences of Sunday trading. However this would be slightly more than offset by reductions in the demand for labour during the week. In the long run, some further reduction in employment might occur...this would be equivalent to 15,000 full time jobs. The reason for this is the increase in efficiency with which retailing capacity is used...also leads to some increase in the efficiency with which labour is used.”

At the same time, the IFS expected that there would be a shift in the structure of retail employment, favouring part-time employment at the expense of full-time employment. The IFS also expected that there would also be an increase in the average rate of pay, with the short run effect being a small decrease in the total number of full-time jobs in retailing, while aggregate remuneration and the total number of people employed actually increased (due to the increase in part-time employment). In the long run the IFS found that, although labour requirements would fall, the number of people employed in the retail sector would fall by less than this (due to the shift towards part-time employment), and total earnings would rise as the average rate paid per hour increased. The IFS believed that the rise in earnings was substantial and one of the most certain consequences of Sunday trading.

B.2 London Economics – Home Office (1993)

London Economics was commissioned by the Home Office to examine the effect of alternative Sunday trading regulations on economic indicators such as prices, wages, employment and retail profit.⁸¹ Following the approach taken by the IFS in 1984, London Economics undertook an analysis of demand, retail cost structures and likely responses to changes in trading hours based on annual accounts and questionnaires.

London Economics considered the impact of four reform proposals, ranging from the complete restriction of trading (with the exception of very small shops selling a limited range of goods) to total deregulation as outlined in Table B-1 below.

⁸¹ London Economics. April 1993. “The economic impact of alternative Sunday trading regulations.” A report for the Home Office research and planning unit.


Table B-1

Reform	Proposal
Keep Sunday Special proposal	<p>Restricted Sunday trading with the following exceptions:</p> <ul style="list-style-type: none"> ◦ Petrol stations, pharmacies, church shops, off licences, automatic teller machines and farm shops ◦ Shops less than 1,500 square feet with 80% of sales within specified lists provided that they are convenience, newsagents, video hire shops at petrol stations, shops at museums etc., shops at sports grounds or shops in seaside resorts ◦ Garden centres from 9am to 6pm provided that 80% of sales were plants and related goods ◦ Motor and cycle accessory shops from 9am to 6pm provided that 80% of sales were motor and cycle accessories ◦ Registered pharmacies for two hours provided that 80% of turnover is in medicines, toiletries and cosmetics <p>Wage rates on Sunday to be twice the weekly wage rate</p>
The Retailers for Shops Act Reform proposal	<p>Weekday trading up to 10pm and unrestricted Sunday trading by shops in the following categories:</p> <ul style="list-style-type: none"> ◦ Smaller than 3,000 square feet and whose business is wholly or mainly in food, tobacco, newspapers, flowers, videos, antiques or handicrafts, or which are associated with petrol stations, farms, galleries, parks and sports grounds ◦ Shops whose business is wholly or mainly in plants, garden furniture, tools and machinery, home improvement materials, and motor and cycle supplies <p>All shops would be allowed to open for the four Sundays immediately preceding Christmas.</p>
The Shopping Hours Reform Council Proposal	<p>Shops of over 3,000 square feet required to register with their local authority before opening on Sundays. Sunday trading would be allowed for six hours between 10am and 6pm</p> <p>Additional provisions for employee protection</p> <p>No restrictions on shops less than 3,000 square feet</p>
Full Deregulation	No restrictions on Sunday trading

The aim of the study was an investigation into the likely consequences of Sunday trading (as set out in each reform proposal) for retailers, employees, customers and local authorities including:

- An assessment of the costs and benefits to consumers, retail employees and retailers
- An investigation of the effects on the retail property market
- A comparison of international experience
- A comparison of the four reform proposals with the existing (not necessarily legal) situation

While building on the work undertaken by the IFS in 1983, London Economics considered that the IFS work could not be used directly to analyse the reform proposals as these proposals included a variety of options not considered by the IFS. In addition, there had been a number of changes in the retail sector since 1983:

- Structural changes had led to a higher concentration of chain stores, supermarkets and out-of-town centres. Several major store groups had grown rapidly, while others had been disbanded or reorganised.



- Actual opening hours had changed substantially, including widespread (typically illegal) Sunday opening in some sectors and extensive evening opening.
- Consumer behaviour had changed, following the end of the consumer credit boom and the onset of the recession.
- Consumers had grown accustomed to extensive Sunday opening with accompanying changes in preferences and demand for Sunday trading.
- Investment in the retail sector in the late 1980s had led to excess capacity.
- The influence of the Wages Council had waned, affecting Sunday wage premiums.

B.2.1 Short run impact

To estimate the short run impact of Sunday trading, London Economics assumed that retail stores would open on Sunday if they found it profitable to do so. They considered that the most important short-run effect of a change in trading hours would be on labour costs and estimated changes in these costs using details of retail employment and wages. To estimate the increase in labour costs, London Economics assumed that some labour functions (such as shelf-stocking and clerical functions) would not be carried out on a Sunday to avoid payment of any wage premium. In estimating the level of the wage premium, London Economics conducted a questionnaire and concluded that premiums in small shops were relatively low, while most or all large shops paid a double time wage premium.

It was also assumed that services, transport and energy costs would change with trading hours, but to a lesser extent given that these costs tend to be either fixed (for example, food refrigeration) or dependent on turnover. For a given level of Sunday opening, the London Economics model calculated changes in sales, costs and net margins and compared these to the net margin with no Sunday opening. If the net margin increased with Sunday trading, it was assumed that the retailer would open.

B.2.2 Medium term impact

In the medium term, the position of individual retailers (who choose to open based on whether it is profitable or not) would be affected by what is happening to the sector as a whole. Similar to the IFS study, London Economics considered that the key feedback was from the level of retail demand – retail capacity, employment costs and other variable costs increased while overall retail turnover remained the same, leading to a short term fall in net margins. In the medium term, London Economics assumed that retailers respond to this by adjusting their operations to reduce costs, particularly by reducing labour costs. In considering the impact on capacity utilisation, London Economics relied on the IFS analysis.

In the medium term, the analysis assumed that retailers who chose to open on Sunday gained sales at the expense of those who chose not to open, further accentuating the differences in profitability that occurred in the short run.

B.2.3 Long run impact

The long run in the London Economics model assumed that all costs were variable as enough time had elapsed for new retail outlets to open, for others to close and for others to change their layout through extensive investment. Based on the assumption that Sunday sales reduced the peak in weekday sales, London Economics considered that the reduction in congestion would enable retailers to reduce capacity while continuing to serve the same level of overall demand (albeit over a longer period of time). Capacity could be reduced through a mixture of retailers postponing investment,



reductions in the size of existing stores and the closure of stores. This reduction in capacity would in turn lead to a reduction in costs for the retail sector as a whole, depending on the relative importance of peak and average sales in determining capacity needs, and would continue until net margins were restored to their initial level. London Economics also anticipated that these lower costs would be passed on to consumers in the form of a reduction in prices.

B.2.4 Impact on employment

London Economics believed that, under deregulation, the increased efficiency of the retail sector would contribute to overall productivity growth and would tend to increase Britain's competitiveness, employment and/or real income levels. However, the balance between employment and wage levels would depend on labour market conditions. Sunday trading would make the retail sector more labour-intensive but also lead to a contraction of the sector, making the impact on employment uncertain in terms of size and direction.

Similar to the IFS, London Economics also concluded that Sunday trading would influence the mix of full-time and part-time employment in the retail sector. Staffing decisions would also be affected by the level of any wage premium. While London Economics assumed that existing wage premiums would continue, they thought it unlikely that premiums would remain at that level should Sunday become a normal part of a retail employee's working week.

Table B-2 below summarises London Economics assessment of the impact of the four reform proposals:

Table B-2

	Keep Sunday Special Campaign⁸²	Retailers for Shops Act Reform	Shopping Hours Reform Council	Full Deregulation
Proportion of retail capacity open on Sunday	4.3-5.3%	16.7%	47.3%	63.3%
Proportion of sales on Sunday	0.4-0.5%	1.5%	4.4%	5.8%
Medium-term costs (% turnover)	-0.2%	-0.1%	0.1%	0.2%
Long-term capacity increase (% turnover)	3.3-3.5%	2.6%	-1.1%	-2.7%
Retail price change	0.4%	0.3%	-0.1%	-0.3%
Retail employment (FTE)	21,200-22,500	12,900	-5,300	-19,100
Wage Change (per employee)	-£167-172	-£125	£51	£135
Weekday congestion	Rises	Slight rise	Slight fall	Fall
Customer convenience	Greatly reduced	Slightly reduced	Increases slightly	Increases

B.2.5 Additional impacts

The London Economics analysis also considered additional impacts of Sunday trading including:

⁸² London Economics considered a 'tight' and 'liberal' version of the Keep Sunday Special Campaign proposal



- 1 Consumer convenience and time – one of the effects of increased Sunday trading would be to reduce demand at peak periods of the week as consumers, particularly those in full-time employment are given the opportunity to purchase at different times. This reduces the pressure on shops at peak periods and subsequently reduces the time cost of shopping. London Economics considered that the reduction in congestion at weekday peak periods would only be a temporary phenomenon. In the long run, changes in the structure of retail would gradually return congestion more or less to its previous level. However, consumers who chose to shop on Sunday would continue to benefit and pressure on parking and public transport would also be permanently reduced. London Economics did not attempt to estimate the value of customer convenience and time.
- 2 Congestion, noise and other externalities – the benefit of reduced congestion on other days of the week should be offset against the costs of increased congestion on Sunday.
- 3 Competition – London Economics considered that any concerns about competition in the retail sector should be addressed through competition measures, such as the then Monopolies and Mergers Commission, and that changing the law on Sunday trading – in either direction – would be unlikely to be effective in increasing competition.



Appendix C: International experience

The global trend has been one of removing restrictions relating to Sunday trading. Over the last fifty years, a number of countries have removed legislative restrictions that prevented retail trading on Sunday, a day traditionally reserved as the Christian day of Sabbath.

The trend towards deregulating Sunday is particularly evident in the United States, where a steady decline in the number of states that restrict retail activity on Sunday began in the early 1960s such that by 1985 only 22 states still had bans compared to 35 in 1961.⁸³ In contrast, in Europe only Belgium, Luxembourg, Sweden and Spain had taken any formal steps towards deregulating retail activity on Sunday prior to 1990.⁸⁴ Over the following decade England and Wales, the Netherlands and Finland also introduced measures to relax restrictions. These movements have also been observed in other countries such as Canada, Australia and New Zealand.

This appendix outlines the experience of a number of countries in addressing retail trading hours on Sunday.

C.1 Europe

Across Europe, the pattern of trading hours is varied although generally restricted compared to countries such as the United States and Australia. Table C-1 provides a brief comparison of Sunday trading restrictions in a number of European countries.⁸⁵

⁸³ Skuterud. 2005. "The impact of Sunday shopping on employment and hours in the retail industry: evidence from Canada." *European Economic Review* 46 (1953-1978).

⁸⁴ Skuterud. *Ibid.*

⁸⁵ Dr Yvonne Court.. 2005. "Trading hours across Europe." Wakefield, Healey and Baker.


Table C-1 Retail trading restrictions in Europe

Country	Sunday
Austria	Closed except railway stations and airports
Belgium	Only permitted 3-5 days per year
Denmark	Generally prohibited, although most shops open on 8 Sundays before Christmas
Finland	12.00-21.00 (June-August and November-December). Food shops smaller than 400 sqm can open every day except public holidays.
France	Limited to selected retailers. Generally outlets can open 5 days a year subject to permits. Some tourist areas and cultural/leisure facilities can trade 7 days a week.
Germany	Closed except convenience and travel goods at railway stations and airports. Local authorities may grant permission for retailers to open on Sundays (maximum 4 per year).
Greece	Closed all day except petrol stations and some shops in tourist areas.
Hungary	Generally limited to 24 hour shops, shopping centres, tobacco shops and newsagents.
Northern Ireland	12.00-18.00 major city centres only
Ireland	Legislative provisions for restriction but not applied
Italy	Permitted to open 12 Sundays per year (exception of tourist areas). Relaxed in major and tourist cities.
Netherlands	Sunday trading permitted up to 12 days per year, except in tourist cities.
Norway	Open in December
Portugal	High streets generally no trading
Russia	Moscow and St Petersburg shops open Monday-Sunday from 09.00-21.00.
Spain	High streets 10.00-14.00 (one per month). Shopping centres one per month.
Sweden	12.00-16.00
Switzerland	Permitted but exceptional (e.g. airport)
United Kingdom	England & Wales - Large shops (>280 square metres) permitted to trade for six hours between 10.00 and 16.00. No restrictions on small shops. Scotland – no restrictions

Note: Data for Ireland and the UK from Indepen

A number of studies have sought to evaluate the impact of regulation and deregulation in European countries.

C.1.1 Germany

Grunhagen *et al* (2002) sought to compare how consumer perceptions of Saturday shopping developed in Germany in conjunction with relaxed restrictions by conducting a survey of German university students over a three year period.⁸⁶ In 1996, new legislation extended retail trading hours on weeknights by one and a half hours and on Saturday by two hours (from being required to close at 2pm to 4pm). At that stage, surveys indicated that a majority of respondents had no preference for

⁸⁶ Grunhagen, Grove and Gentry. January 2002. "The dynamics of store hour changes and consumption behaviour: results of a longitudinal study of consumer attitudes toward Saturday shopping in Germany." *European Journal of Marketing* Vol.37, no.11/12



longer trading hours and believed that they could do their shopping without major problems during the trading hours that previously existed.

However, Grunhagen *et al* found that expanded Saturday shopping opportunities had a noticeable effect on perceptions of Saturday as a shopping day, as well as consumption patterns. They found that shopping on Saturday had shifted from necessity shopping (for example, groceries) to more hedonic shopping (for example, fashion), which supported the theory that longer hours would lead to an increase in retail sales. Further, the study concluded that this did not involve a major shift in expenditure as consumers could now buy such items at lower prices due to the fact that mass merchandisers could now open for a longer period of time.

C.1.2 Sweden

In Sweden, shop opening hours were deregulated in 1971. In 1989 a Government investigation concluded that Sunday opening had put some downward pressure on average retail prices, which may have led to an increase in consumer spending.⁸⁷ Another investigation also found that a 10 per cent increase in opening hours had reduced prices by 0.3 per cent.⁸⁸ A study by Kajalo⁸⁹ found that Sunday opening had become common across some lines of retail, such as department, furniture and grocery stores, but little evidence of recreational shopping. It was further concluded that on Sunday consumers mainly shopped for groceries.

C.2 Australia

The reform of retail trading hours in Australia has developed progressively over time and varies between States/Territory jurisdictions.

Although some jurisdictions commenced deregulation prior, National Competition Policy reforms in 1995 required governments to review legislation that could have the effect of restricting competition. Where it could not be shown that there was a net public benefit associated with retaining restrictions, jurisdictions were required to reform the legislation. Most of the States and Territories moved quickly to review any regulations on retail trading hours, although Western Australia has not performed this review to the satisfaction of the National Competition Council and has been subject to reductions in National Competition Payments as a result.

Table C-2 shows the restrictions relating to retail trading hours in the Australian States and Territories. Notably, in 1996 the Australian Capital Territory introduced limits on the opening hours of supermarkets in major shopping centres as an explicit means of assisting supermarkets in smaller suburban shopping strips, however these were withdrawn in 1997 “...in light of public disapproval and no evidence of effectiveness in shifting demand to relevant small stores.”⁹⁰

It is worth noting that any restrictions on trading hours are made on the basis of the number of employees for a store group, rather than store size.

⁸⁷ In London Economics.

⁸⁸ Ibid.

⁸⁹ Kajalo. 1997. “Sunday trading, consumer culture and shopping – will Europe sacrifice Sunday to recreational shopping.” Conference paper.

⁹⁰ Access Economics. 2003. “The impact of deregulating retail trading hours: submission to the Western Australian review of retail trading hours.” Report prepared for the Shopping Centre Council of Australia.


Table C-2 Australian retail trading hours restrictions

State	Retail Trading Hours
Victoria	Deregulation in 1998. Monday to Sunday trading hours are unrestricted.
New South Wales	Gradual deregulation from 1988. Monday to Saturday is unrestricted, there are some restrictions on Sunday with an exemption process.
Northern Territory	Never regulated.
Queensland	Deregulation of Sunday trading in 2002 for major towns and tourist precincts. No restrictions above the 26 th parallel.
Tasmania	Deregulation in 2002 to allow seven day trading.
South Australia	Deregulation in 2003
Australian Capital Territory	Deregulation in the 1990s, with a temporary period of re-regulation in 1996, unwound in 1997.
Western Australia	Continued regulation – Monday to Saturday trading hours restricted and Sunday trading prohibited outside tourist precincts. No restrictions above the 26 th parallel.

Australia provides a useful comparison as the progressive nature of deregulation across the states enabled an evaluation of the impact of deregulation in some States to inform decisions about whether to allow deregulation in others.

C.2.1 Consumer preference

Following deregulation, the available evidence indicated that there was a strong shift in shopping behaviour into the newly-deregulated hours. In particular Sunday trading, when allowed, resulted in that day quickly becoming the second most popular shopping day after Saturday.⁹¹

Following deregulation in New South Wales and Victoria, a study by Jebb, Holland and Dimasi in 2000 found that in Sydney and Melbourne around 35 per cent of consumers bought groceries on Sunday compared to 7-8 per cent in Perth and Adelaide where only small food stores could trade. Before deregulation, only 0.8 per cent of consumers shopped on Sunday in Victoria and 5.1 per cent in New South Wales, compared to 10.3 per cent in the Northern Territory where no restrictions were in place.

In Victoria, legislation on trading hours enabled municipalities to cancel Sunday trading by public vote. In 1998 this was put to the test in Bendigo, a large regional town, where 77 per cent of voters voted in favour of Sunday trading.

C.2.2 Retail sales

An analysis of retail spending growth by ACIL Tasman in 2005 found significant differences between regulated and de-regulated jurisdictions.⁹² For example, retail sales in Victoria increased by 48 per cent in the six years following deregulation compared to 36 per cent for Western Australia, which remained regulated. An immediate effect was also seen in Tasmania, where retail expenditure grew from \$895.7 million in the December quarter 2002 (the commencement of deregulation) to \$1,050.6 million in the September quarter 2004, an increase of 17.3 per cent.

IGA Distribution, a retailer and distributor to independent supermarkets in Victoria reported in September 2003 that its sales had increased by 25 per cent since the previous year, with a

⁹¹ Access Economics. *Ibid.*

⁹² ACIL Tasman. 2005. "Extension of retail trading hours in Western Australia." Prepared for Choice and Convenience for All.



corresponding increase in market share from 12 per cent in 2000 to 16 per cent. It was planning to open an additional 20 stores in response to high levels of consumer demand.

In a case study of shop trading hours reform in 1999, the Victorian Government found that, since deregulation, retail sales in Victoria had “...grown strongly, faster than any other State and at around twice the rate than the rest of Australia.”⁹³ While a number of factors influence retail trade, the Government considered that the strong growth experienced since the reforms suggested that they had a strong positive influence.

C.2.3 Retail employment

The analysis by ACIL Tasman also showed that retail employment usually increased after trading hours were liberalised. Evidence from major department and grocery stores showed that the number of employees increased following deregulation to meet consumer demand during the extended hours. For example, Woolworths employed an additional 1,750 people following deregulation in Victoria while Coles supermarkets employed an additional 2,000 people.

A benchmarking study comparing the retail sectors in Victoria and South Australia (before South Australia liberalised trading hours) showed that Sunday trading had benefited retail jobs growth, with a growth rate of 3.4 per cent per annum in Victoria compared to almost no growth in South Australia.

The Australian labour market has experience some structural changes that coincide with deregulation in some jurisdictions including:

- An increase in the number of people in part-time employment from 22 per cent in 1991 to 28.5 per cent in 2003, half of which work in the retail, health, property and business services sectors. A survey by the Australian Bureau of Statistics in 2001 found that the majority of people in part-time work preferred part-time to full-time, with only 7 per cent of part-time workers actively seeking full-time work.
- An increase in the number of youth, female and older employees in the workforce. The number of old (55 years and over) workers from 10 per cent of part-time workers in 1991 to 14 per cent in 2001.

The Productivity Commission review of competition policy reforms concluded that the growth in part-time employment had not been at the expense of full-time employment. Rather, there was evidence to suggest that the retail sector was moving away from casual employment to more secure (for the employees in particular) full-time and part-time employment. However, these trends were apparent before deregulation took place.

C.2.4 Rural and regional communities

The Productivity Commission review was especially concerned about the impact of reforms on rural and regional Australia. A number of submissions to the review claimed that extended hours would favour larger retailers at the expense of smaller businesses within communities; and that more liberal trading hours would favour larger provincial towns at the expense of outlying smaller communities. However, the review found that, while “...more flexible retail trading hours have weakened the competitiveness of some retailers...they have been of net benefit to consumers and appear to have increased employment, including in country Australia.” Submissions to the review also noted that restricted trading hours imposed costs on consumers in remote areas of Australia by limited the

⁹³ In Productivity Commission. 1999. “The Impact of competition policy reforms on rural and regional Australia.”



amount of business that can be achieved by these consumers when they visit retail areas, often requiring overnight stays due to the distances involved.

A report for the Tasmanian Government also considered the impact of removing trading hours restrictions on rural and remote areas. The study found that:

- There would be some impact of profitability but that the overall viability of the vast majority of independent stores would not be at risk. Further, to the extent that they were able to improve their offerings to customers, independent stores would be able to reduce any revenue loss.
- The net impact was expected to be little or not change in employment by rural households, although a slight shift away from employment in rural independent grocery stores to employment in urban grocery and non-grocery stores.

C.2.5 Productivity and welfare

In October 2000, the Productivity Commission considered the impact of the deregulation of trading hours as part of an overall review of productivity in Australia's wholesale and retail trade.⁹⁴ The review noted that deregulation had led to an overall increase in average opening hours in Australia from 52 hours in the early 1980s to 61 hours in 1992 (it has presumably risen further since then with the introduction of 24 hour trading by some retailers).

The Productivity Commission considered that the welfare benefits from deregulation were undoubtedly significant given that:⁹⁵

"...these changes reflect community desires stemming from major changes in lifestyles and incomes."

The review cited a 1997 study that estimated the welfare benefits of an additional five hours of trading in the state of Victoria to be around \$AU300 million in 1995-1996.

The review also concluded that it was likely that, in aggregate, longer trading hours did not lead to a significant increase in merchandise sales:

"While deregulation is unlikely to have led to more goods being processed through the checkout (the standard measure of output), it certainly made shopping more convenient. While statisticians attempt to make adjustments for improvements in the quality of goods, no adjustments are made for improvements in the quality of services."⁹⁶

C.3 New Zealand

Retail trading hours were deregulated in New Zealand in 1990. Retailers can choose their own opening hours, without restriction, for every day of the year with the exception of Christmas day, Good Friday, Easter Sunday and until 1pm on Anzac Day.

On restricted days some categories of shops can still open, including:

- Shops that sell food, drink, household and personal items and automotive fuels and goods, which people may reasonably need to be able to buy at any time, provided that the quantities for sale are no greater than sufficient for the demands of people in, or travelling through, the area.
- Shops selling mainly souvenirs, duty-free goods and food ready to be eaten

⁹⁴ Productivity Commission. October 2000. "Productivity in Australia's wholesale and retail trade." Staff research paper. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=270784

⁹⁵ Productivity Commission. October 2000. *Ibid.*

⁹⁶ Lowe (1995) in Productivity Commission. October 2000. *Ibid.*



- Shops at public transport terminals or stations selling books, magazines, newspapers, souvenirs, duty-free goods and food ready to be eaten
- Pharmacies
- Shops at genuine exhibitions and shows
- Shops in towns and suburbs covered by area exemptions

In addition, Garden Centres may open on Easter Sunday only.

In 2004, the New Zealand Parliament considered proposals to remove restrictions on Easter Sunday trading. A working group report recommended two options – complete deregulation or amending legislation to enable local authority exemptions – in response to concerns about the operation of the above exemptions.⁹⁷ However, proposals to amend the legislation relating to trading on Easter Sunday were rejected by Parliament.

C.4 Canada

The process of deregulating Sunday trading in Canada began in 1985, when the Supreme Court of Canada found that the federal *Lords Day Act*, which had designated Sunday as a weekly day of rest since 1907, was unconstitutional. The immediate consequence of this finding was that the ten Canadian provinces became responsible for determining the legality of Sunday trading within their jurisdiction. By 1993 all provinces had either passed legislation restricting Sunday trading (Newfoundland, Prince Edward Island, Nova Scotia and New Brunswick), providing municipal authority (Saskatchewan, Alberta and British Columbia) or permitting Sunday trading (Manitoba, Quebec and Ontario). Of the provinces that initially restricted Sunday trading, Nova Scotia is the only province that still prohibits Sunday trading entirely, although it experimented with the practice in 2003 and allows some shops, such as video rental outlets and book stores, to open. Other provinces allow Sunday trading in the weeks leading up to Christmas, or for a restricted number of hours. The current restrictions are outlined in Table C.3 below.

⁹⁷ Report of the Shop Trading Hours Working Group. June 2003. "Shop trading hours – proposals for a way forward." http://www.ers.dol.govt.nz/law/Shop_Trading_Hours_Working_Group.pdf



Table C.3

Province	Restrictions
Newfoundland	No restrictions
Prince Edward Island	Sunday trading allowed from the last Sunday in November to the Sunday preceding Christmas
Nova Scotia	Restricted with some exemptions (e.g. video rental and book stores).
New Brunswick	Sunday trading allowed from the first Sunday in August to the second Sunday after Christmas
Saskatchewan	Municipal autonomy to determine Sunday trading hours
Alberta	Municipal autonomy to determine Sunday trading hours
British Columbia	Municipal autonomy to determine Sunday trading hours
Manitoba	Municipal autonomy to determine Sunday trading hours
Quebec	No restrictions
Ontario	No restrictions

A study by Skuterud⁹⁸ examined the impact of Sunday trading on employment and hours of work in the retail sector based on the available evidence from Canadian provinces. Using data from a sample of provinces where there was evidence that deregulation resulted in significantly more Sunday store openings, the study found that the increase in labour demand was disproportionately satisfied through an increase in the employment level. The study estimated employment gains of between 5 and 12 per cent that were

- Driven by an increase in the level of threshold labour that dominated an offsetting gain in labour productivity, and not by an increase in the employment level
- Larger among general merchandise stores than among more specialised retail establishments

Further, the study found evidence that retail firms were unable to temporarily raise the weekly hours of existing employees to overcome rigidities in employment levels and were therefore moved to increase employee numbers.

⁹⁸ Skuterud. 2005. "The impact of Sunday shopping on employment and hours of work in the retail industry: evidence from Canada." *European Economic Review* 49 (1953-1978).