**SUBMISSION TO THE LOW PAY COMMISSION ON THE FUTURE LEVEL OF THE NATIONAL MINIMUM WAGE**

The Rural Shops Alliance is a national trade association representing the views of about 7500 rural shops. The general nature above comments are similar to those we have made in previous years as many of the fundamental issues do not change much over time.

INTRODUCTION

It goes without saying that part of the concept of the national minimum wage is that it will not significantly influence the structure or balance of the economy. We believe that the current level has changed the way that the retail industry operates and that extreme caution needs to be exercised in pushing the level up any further. We believe that the NMW has:

* closed up wage differentials within the industry
* Created a situation whereby many shop owners are working excessive hours for very low rates per hour, thus discouraging some new entrants into the industry.
* Encouraged larger retailers and organisations such as the post office to undertake capital investments to reduce staff hours that would not necessarily be undertaken at lower staff costs.

To add colour to our arguments, we have included a couple of direct quotes from retailers on the issue from retail members of the RSA.

WAGE DIFFERENTIALS

The level of the national minimum wage is of considerable importance to our members. Although most of them try to pay their staff a bit above the actual minimum wage itself, nevertheless wage rates are directly related to it. Over the years, we have seen the differentials between experienced or supervisory staff compared with junior workers have narrowed. Stores that a few years ago were paying senior staff £1.50 an hour more have gradually eroded the premium so that now £.50 may be the level of difference. Hence the existence of the national minimum wage at its current level is has directly influenced the seniority structure within many of small businesses in our sector.

OWNERS AND WORKERS

It is normal for the owners of small shops to work alongside their staff, often carry out similar duties. It is common for small shop and is to work very long hours, way beyond levels built into the working time directive. 50 or 60 hours per week are not uncommon, whilst many shopkeepers take very little holiday – the cost of paying for cover, particularly when a post office is involved, makes having a week off very expensive. The paradox then comes about that staff paid on or above the national minimum wage actually receive a higher level of remuneration per hour than their boss is able to draw from his business.

Almost the only way to maintain net profits is to control staffing costs. This very often means the owners and their families working stupidly long hours.

This in turn makes it a less attractive proposition to buy a rural convenience store and hence the closure of some, in some cases to be replaced by a community-run shop.

We have pointed out before that the numbers of community run shops continues to increase. One of the key advantages of this model is that it reduces staff costs – members of the community volunteer to work without pay. Although admirable, this approach does inevitably reduce the number of paid positions in the rural retail industry, at a time when the economy needs every job that can be created.

THE TRADING ENVIRONMENT

The cost of staff is inevitably a major determinant of profitability in this labour intensive industry. Typical rural convenience stores are operating on low gross profit margins, and for many the cost of staff is the key variable cost. When those margins are put under pressure, there are few areas under the owner’s control that can significantly affect the bottom line. Other costs such as business rates and electricity are rising. Profit margins are under intense competitive pressure and sales for many stores are static in real terms.

Government has become aware of the problems facing sections of the retail industry. The Dept. For BIS has been supporting the Mary Portas High Street initiative and has recently published a paper to identify other ways the government can support issues that can impact positively on the sector.

STAFF RECRUITMENT

It is worthwhile pointing out that rural retailers are experiencing no difficulty whatsoever in recruiting good quality staff for vacancies, even when these only offer part-time work, often at relatively unsocial hours, at wages at or slightly above the national minimum wage.

REDUCING THE NEED FOR STAFF

We have pointed out before that the retail industry in general has invested considerable sums in ways to reduce the number of employees needed. Large supermarkets continue to install self-service checkouts, with considerable benefits to their bottom line but at the cost of employing fewer assistants. The Post Office is now rolling out a new operating model, post office local. At the core of this is the drive to reduce staffing costs, even at the expense of reduced customer service. Again, this approach will reduce the number of paid hours the staff in these environments.

OTHER EMPLOYMENT COSTS

The government is in the process of reforming pension provision, particularly for lower paid workers. Although in itself a good thing, auto enrolment in the scheme will have the effect of increasing the cost per hour of employing staff. In addition to the employers 3% contribution, the admin burden in an industry where part-time working is the norm and staff turnover is high will not be negligible.

SETTING THE NMW FOR A LONGER PERIOD

The recent debacle, where business rates for a year was set on the basis of one month's inflation figures which happened to be very high, does show how even apparently sensible models can go awry. For this reason, the RSA itself would have some reservations about fixing the national minimum wage for a period longer than one year. Having said that, it is clear from our members’ comments that they would value the certainty that a formula extending over a period longer than one year would provide. There is a general consensus the industry that setting the level for two years would provide some of the certainty that store owners want.

CONCLUSION

For our sector, we would suggest that the need to support employment levels at a time of national economic weakness outweighs any desire to increase the NMW significantly. We would suggest that the NMW increase should be below the rate of inflation for this year.

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APPENDIX

QUOTES FROM RETAILERS on the NMW

“Any further increase in the minimum wage would actually be disastrous for us as a small village bakery. We are already OAP'S and work for nothing in our business so that we can employ staff. (10 in total). We have had to use our savings to make improvements in our business, as the banks were reluctant to lend, and we seriously have already considered giving it all up.

We are currently trying to seek more customers by going out into the surrounding towns, however as well as having to contend with a HUGE rise in electricity charges if we had any hourly rate increase, then I think that we might well re-consider what to do in the future. This would obviously entail redundancies.

We already employ youngsters on an NVQ, but generally they move on after they have gained their qualification as we cannot as yet offer them more than 20 hours a week work. I cannot see the government lowering the hourly rate, however if they did that, and also altered the criteria on how and when you can dismiss employees, then we would be willing to take on more part time staff”.

Max and Diane Seivewright,

Ombersley Village Stores and Bakery, Worcestershire

“I would dearly love to pay my staff more, but in this climate, where I have to work myself an average 95 hour week for less than a £2 a hour, because I cannot afford to employ more staff. If the minimum wages was to increase, I would have to reduce staff hours or even let some go, as my business just cannot afford it.

Some business that do make a good profit, will pay more than the minimum wage to attract staff, but the smaller business like myself are being tightly squeezed out of the market, leaving the Supermarkets to take over”.

Tony Howard

The Village Shop, Withypool, Exmoor

“We currently pay £6.50 per hour. We give all our staff a cost of living or 5% increase, whichever is the least, every year (sometimes rounded) in September on the anniversary of our arrival in Canon Pyon. This year their pay will go up to £6.70.

We have never had any difficulty paying our staff wages, they currently run at £16,500 a year.in total. Perhaps we are lucky but all our staff are easily worth £6.50 per hour.

I realise there are shops which cannot afford their employees, like all businesses with this problem, the long term answer is to change the business so that it can. If, for example, we were forced to become a PO Local with the quartering of our PO income which would be the certain outcome, one of us would seek another source of income.

Village shops which cannot provide a decent income to their owners close as commercial operations - the owners' health and happiness are more important than the service they are providing to their customers, it is sad but inevitable.

Any business which cannot afford £6.08 an hour for its employees cannot afford employees. Clearly unemployment is a dreadful thing for an individual as well as for an economy but low wages are not the answer. Better businesses are the answer.

It is important that every time an employee leaves or chooses to reduce his or her hours that the employer takes it as an opportunity to make the changes necessary to keep the business running to the employer's advantage not just replace the lost hours of help in the same way.

I suppose this sounds very arrogant or uncaring but it is the truth. No village shopkeeper should drive him or herself into ill-health or poverty to pay another person's wages”.

Marcus Williams

Canon Pyon Stores, Herefordshire