



ACS Submission: Low Pay Commission Review 2014

Introduction

ACS (the Association of Convenience Stores) working with the Scottish Grocers' Federation (SGF) welcomes the opportunity to provide evidence to the Low Pay Commission (LPC). ACS represents 33,500 local shops across the country including brands such as Spar UK, Costcutter, Londis and thousands of independent retailers.

ACS has used a range of data sources to inform this submission to the Low Pay Commission (LPC). This includes ACS' Local Shop Report for 2014 detailing employment figures for the sector and a breakdown of employees in the sector, plus information on store numbers, sales and future trends in the market. Data from ACS' Voice of Local Shops (VOLS) survey is also included in the submission. This quarterly survey collects data from 1,100 retailers on sales optimism and employment plans for the year ahead.

ACS has also completed a bespoke survey of members specifically to inform the LPC's review of the 2015 minimum wage rate. The survey is of 34 businesses representing almost 1850 retail outlets that employ over 21,500 members of staff. This survey asked retailers a range of questions on the wage rates they use in their business, the impact the minimum wage has had on their employment practices and for their recommendation for the 2014 NMW. A full copy of ACS' National Minimum Wage survey is available in the appendices.

This submission sets out the approach that convenience stores retailers take to employment, the rates they use and their response to increases in the minimum wage. With the latest data from ACS VOLS survey we will also highlight the striking impact that employment cost increases can have on independent retailers' working hours and rates of pay.

The issue of low pay, NMW and the Living Wage has become an increasing focus of policy discussion. Retailers are aware of this and the role they play in providing flexible and valued employment, whilst maintaining their ability to trade profitably in a challenging retail market. ACS has also recently submitted evidence to the Department of Business, Innovation and Skills' consultation on the draft NMW consolidated regulations, which can be found in the appendices.

Costs Faced by the Sector

In addition to the cost of the minimum wage, retailers face significant operating costs to their businesses, which must be offset elsewhere for the business to remain viable. ACS welcomes the Employment Allowance which gave the smallest businesses a £2,000 tax cut, benefitting many of ACS' members who employ a very small number of staff. However, there remain areas of concern for retailers:

Statutory Sick Pay

Employers are no longer able to claim back the costs of statutory sick pay that has been paid to staff, negatively impacting small businesses who cannot easily absorb the financial costs of paying both statutory sick pay and another wage. In ACS' minimum wage survey, respondents stated that they had had a total of 1772 sick days that they had to pay out for over the last 12 months. This will force employers to absorb the costs of paying sick pay in the long term, and ACS will continue to monitor the impact of the policy with members.

Auto-Enrolment

Many larger and medium size businesses in the convenience sector have already introduced the automatic enrolment pensions in their business and 2014 has seen the start of small independent retailers enrolling their staff. The introduction of pensions is now starting to have a direct financial impact on the cost of employment in the retail sector that will grow substantially until the scheme is fully in place in 2018.

Retailers are very concerned about both the additional cost that automatic enrolment will place directly on their wage bill but also the additional administrative costs. These costs, both in administrative and direct terms, are difficult to model as pay periods and administrative functions change from business to business as does the opt out rate. For independent retailers that have no central administrative function, there are significant concerns about how they will manage this process within their business.

Economic and Convenience Sector Background

ACS' Local Shop Report 2014 (the Report) shows the vital role that local shops play in the economy. By employing people, promoting entrepreneurship and providing a route to market for many goods and services, the convenience sector makes a significant contribution to the UK. The Report finds that the convenience sector employs around 386,000 people nationwide.

The Report shows that the convenience sector provides employment to people from a range of ages and backgrounds. 20% of employees are aged 16-24, 9% are aged over 60 and 63% are women. The majority, 77%, work less than 30 hours a week, and staff turnover for the sector, defined as people employed for less than a year, remains low at 14%¹.

The convenience sector therefore breaks down into two broad groups of employees; those looking for long-term career opportunities and those looking for transitional opportunities. Individuals are able to join the convenience sector with little or limited training and advance through to well-paid roles with significant responsibilities. The convenience sector recognises the importance of developing staff, with 81% of retailers providing in-house training and 47% offering formal training qualifications².

The convenience sector is also highly entrepreneurial; 77% of stores are independently owned either as unaffiliated independents or as part of a symbol group, with 75% of owners

¹ ACS Local Shop Report 2014

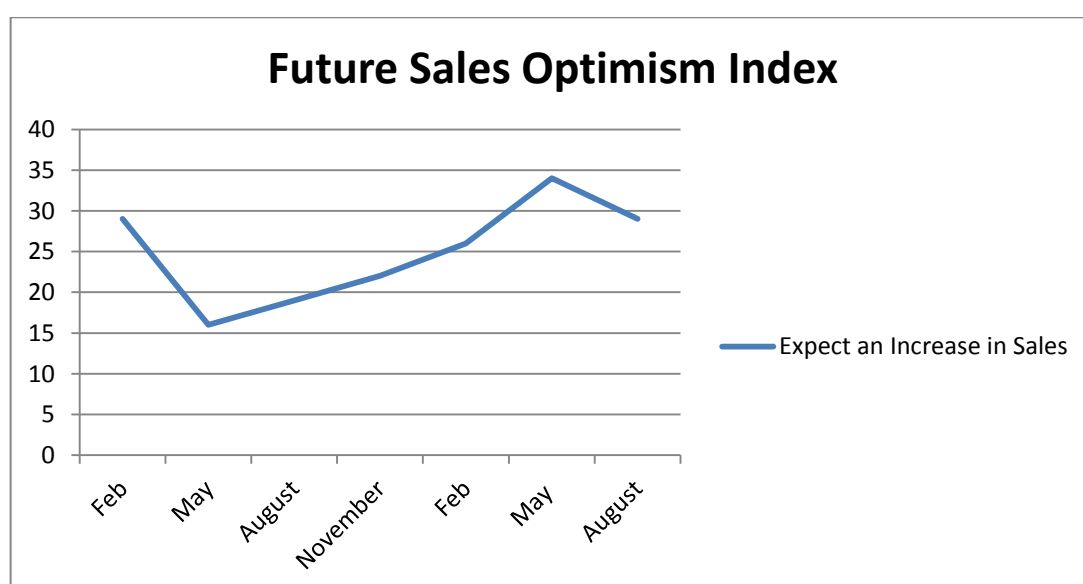
² ACS Local Shop Report 2014

being the first generation of their family to own or run a business in the UK, and 40% of businesses are owned by family partnerships³.

Despite difficult trading conditions in the retail sector, the convenience sector continues to grow ahead of the rest of the market, with the sector projected to grow by 30% over the next five years. The sector is currently estimated to be worth £37 billion⁴. This growth has been driven by a variety of factors, such as the increase in single person households and an increase in working hours meaning that people seek to shop little and often; on average, shoppers use convenience stores 11 times a month⁵.

This growth in the market is not shared equally across all businesses. Multiples have increased their market share by 1.8% between 2013 and 2014, whilst non-affiliated independent stores have seen their market share decrease by 1%⁶.

The food sector in retail has experienced a decrease in sales performance overall, with sales down by 1.4% from July 2013⁷. With the rise in popularity of discount stores and supermarkets cutting prices, consumers continue to be driven by value in stores meaning retailers are forced to put more goods on promotion, in turn squeezing retailers' margins. The latest business performance index from ACS' VOLS survey⁸ indicates a slight decrease in confidence from independent retailers. Overall since February 2013 retailer sales optimism levels have been low, as outlined below:



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³ ACS Local Shop Report 2014

⁴ [IGD Retail Analysis, June 2014](#)

⁵ IGD Retail Analysis, June 2014

⁶ ACS Local Shop Report 2014

⁷ [BRC-KPMG UK Retail Sales Monitor July 2013](#)

⁸ The index is calculated by subtracting the number of retailers who expect sales to decrease from that who expect sales to increase.

⁹ ACS VOLS Survey February 2013 – August 2014

ACS NMW Survey

ACS' National Minimum Wage Survey collected information from 34 businesses with a total of 1827 stores across the convenience sector representing a total of 21,524 staff. The full list of questions asked in the survey is available in the appendices to this document and online [here](#).

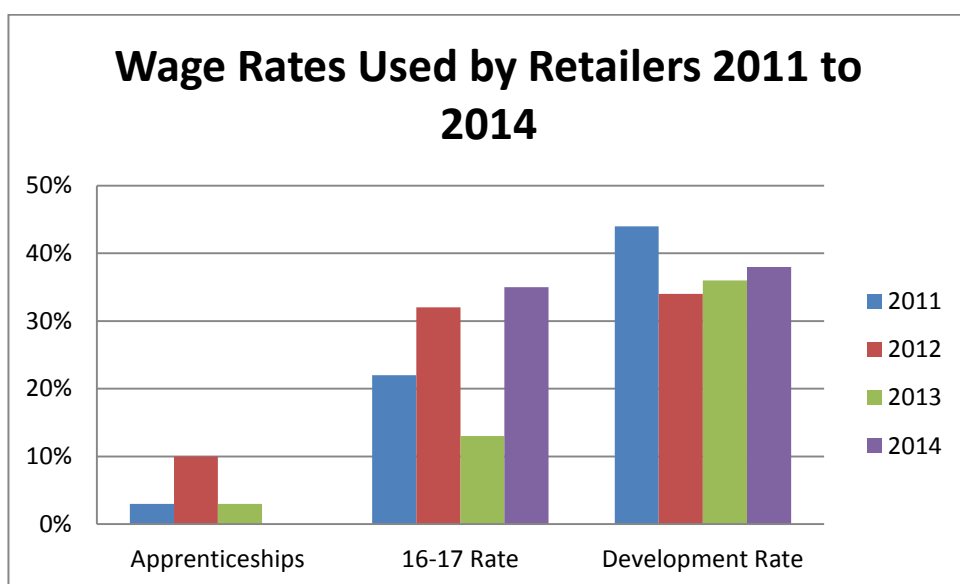
Wage Rates

Retailers were asked to indicate the amount that they paid staff aged 21 or over not in a supervisory role. The average amount paid by convenience retailers was £6.43, 12 pence higher than the current national minimum wage. This is 7 pence lower than the average retailers paid in 2013, reflecting retailers' inability to afford further increases in their wage bill.

Retailers were also asked to state if they pay the youth or development rate for staff in their business. There was no indicated use of the apprenticeship rate, but 35% indicated that they use the 16-17 rate, and 38% use the development rate¹⁰. Many indicated that their policy is to pay all employees the full adult rate because the jobs are of equivalent responsibility.

Some retailers, however, choose to pay the youth rate to staff who are unable to sell age restricted products, meaning that staff who are able to do this receive a higher wage reflecting their role. The increase in the use of the development rate reflects the slower increase of the development rate in comparison to the adult rate of the minimum wage, meaning that employers who cannot afford to increase their wage bill pay the development rate to 18-20 year olds.

The graph below shows the trend in wage rates used by retailers from 2011 to 2014:



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Impact of NMW Increase

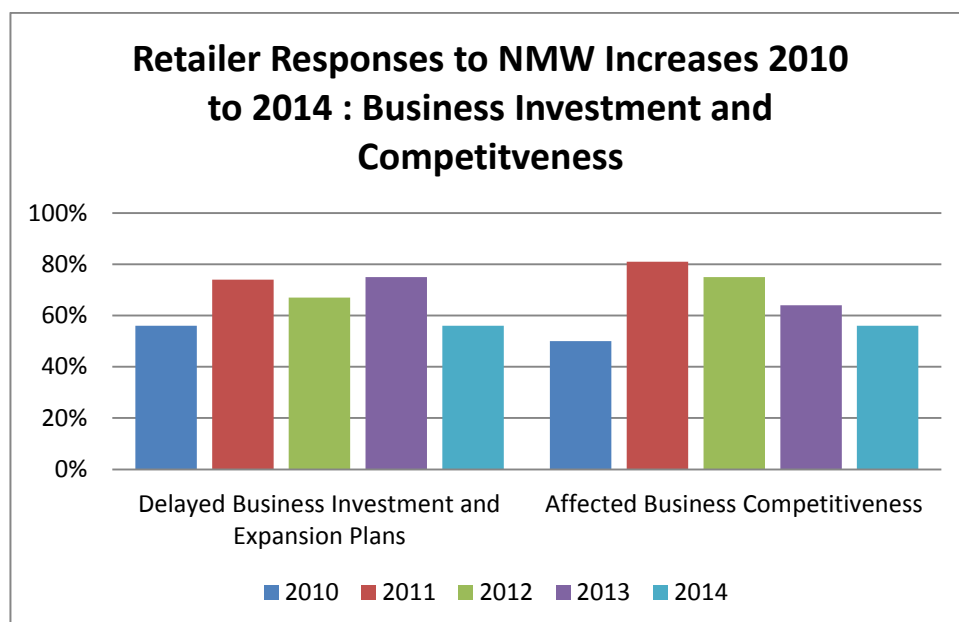
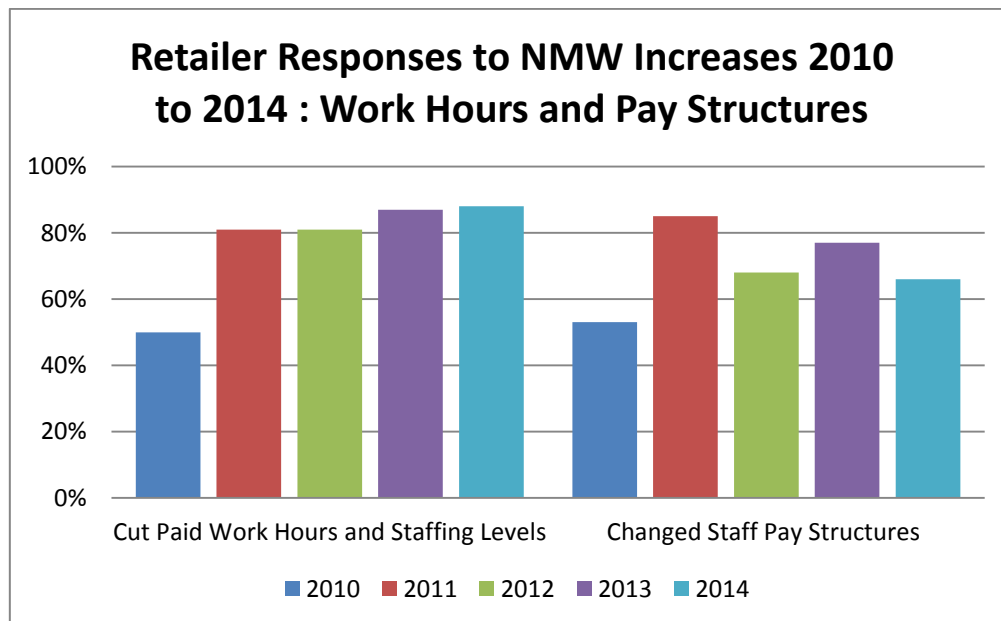
The graph below outlines the track from the ACS NMW survey from 2010 to 2014 of how retailers respond to increases in the minimum wage, with almost all respondents indicating

¹⁰ ACS NMW Survey 2014

¹¹ ACS NMW Survey 2011-4

that increases in employment costs have led to changes in their business. There is a clear correlation between increases in the minimum wage and a reduction in paid working hours and staff numbers.

Of the 94% of retailers that have been impacted by increases in employment costs, 88% have reduced staff hours¹², and 17% of retailers expect to decrease the number of paid staff hours over the next year¹³. Increases in the minimum wage also correlate with a negative effect on business competitiveness, with 56% of responses stating NMW rises have made their business less competitive.



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¹² ACS NMW Survey 2014

¹³ ACS VOLS Survey August 2014

¹⁴ ACS NMW Survey 2010-4

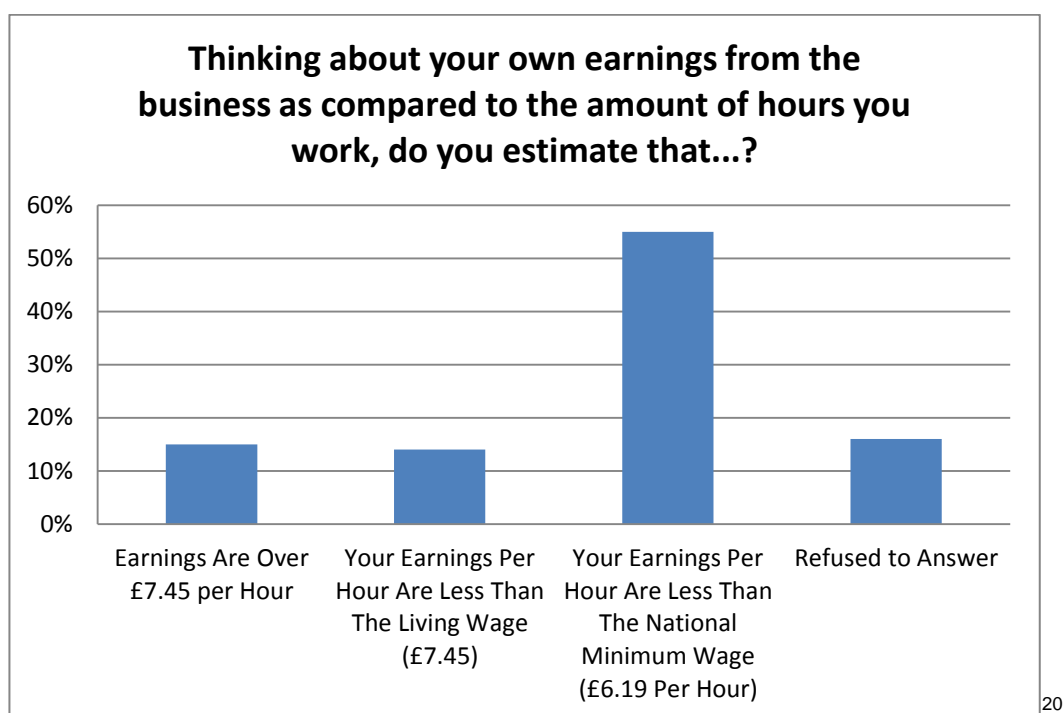
Retailers maintain that profitability (86%) and sales (72%) are the key factors that determine wage rates and staffing hours, over other factors such as national average earnings¹⁵. 62% of retailers also indicated that they had laid off staff in the past year, of which 71% attributed this to increased employment costs.¹⁶ Retailers also indicated that reduced sales, the economic downturn and other factors such as high business rates had impacted on their business.

Despite sales optimism and an improved national economic performance, retailers have struggled to maintain or increase staff hours, with 48% of retailers indicating that they would reduce hours if the minimum wage increased above inflation in 2015¹⁷. Many retailers instead make up the difference themselves by working more hours.

Retailer Low Pay

By working more hours themselves, retailers take home much less compared with the hours they work. 48% of shop owners work more than 50 hours per week and 20% take no holiday in a year¹⁸. 72% of respondents stated that they had increased their own working hours in order to reduce employment costs within their own business¹⁹, impacting upon their pay in real terms.

The graph below based on the VOLS survey of 1,100 retailers indicates what retailers believe they take as pay out of their business and shows that 55% of independent retailers believe they earn less than the national minimum wage.



¹⁵ ACS NMW Survey 2014

¹⁶ ACS NMW Survey 2014

¹⁷ ACS VOLS August 2014

¹⁸ ACS Local Shop Report 2014

¹⁹ ACS NMW Survey 2014

²⁰ ACS VOLS May 2013 – Focus on Wages

The increasing number of hours that retailers are spending working in their business has knock on effects on their ability to grow and develop their business. Such extensive working hours could also deter new entrants to the convenience sector. Given that the sector is highly entrepreneurial, we urge the LPC to consider the impact of further wage increases on independent retailers and the number of hours they are forced to take on in response to these.

NMW Recommendation

ACS asked retailers to state what action the LPC should recommend to the Government on the 2015 NMW rate. 80% of retailers surveyed strongly agreed or agreed that the NMW rate should be frozen at its current rate²¹.

ACS urges the Low Pay Commission to recommend a freeze in the NMW rate for 2015, as there is a clear message from small business that wages should be frozen at their current level. However, if the minimum wage is to increase, this should be kept below the rate of inflation.

For retailers' business to remain profitable, it is necessary that any rises in the minimum wage are counter-balanced with incentives for businesses. ACS has welcomed the reduction in National Insurance contributions that small businesses pay and supports further measures being introduced to help small businesses.

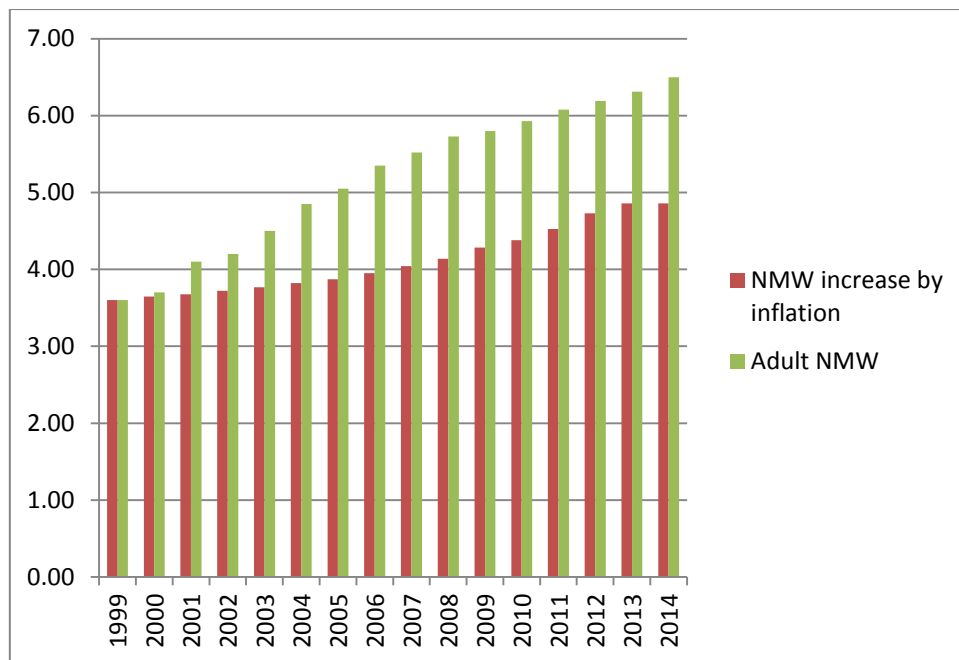
Enforcement

Proper enforcement of the NMW is also important to ensure legitimate employers are not undercut by those who deliberately do not pay the correct NMW rate, and ACS has welcomed the Department of Business, Innovation and Skills' revised scheme on enforcing the NMW and naming employers who break the law. The Small Business, Enterprise and Employment Bill will introduce a penalty of £20,000 for employers who do not pay the minimum wage. Whilst ACS supports strong enforcement measures, financial penalties issued by HMRC have diminishing returns of value in proper enforcement. To ensure employers correctly pay the NMW, local authorities must have the power to prosecute those who break the law.

ACS understands the concerns surrounding low pay and the effect it has on employees, therefore, any increases in the NMW should be met with measures that remove financial burdens from businesses. Many retailers who responded to our survey recognised that the NMW is likely to increase in the future, but expressed a desire to keep any increases to a minimum, with 68% strongly agreeing or agreeing that the NMW should not be increased above the rate of inflation²². The graph below shows that the minimum wage has increased faster than what it would have risen by if the NMW had risen by the rate of inflation since its introduction in 1999.

²¹ ACS NMW Survey 2014

²² ACS NMW Survey 2014



Future Path of the National Minimum Wage

There has been extensive debate about the future of the National Minimum Wage and proposals for reform of the Low Pay Commission. ACS supports the current system for setting the National Minimum Wage with an independent Low Pay Commission objectively monitoring, reviewing and recommending the future wage rate.

ACS and other trade bodies have directly communicated our concerns about political interventions in the process for setting the National Minimum Wage²³ following the Chancellor's comments in early 2014 that a £7 National Minimum Wage could be delivered. We are clear that the success of the National Minimum Wage since 1999 has been the result of the Low Pay Commission's objectivity reviewing the data.

The Low Pay Commission's remit has already been set to increase wages as high as possible without damaging employment opportunities. We also value the opportunity to continue to submit evidence, alongside other business representative bodies and Unions, to reflect the impact on convenience retailers.

Conclusion

Given that employers have had to increase wages at a faster rate than the price of goods have increased since the introduction of the minimum wage, continued increases in the minimum wage, along with increased operating costs such as the introduction of auto-enrolment and Statutory Sick Pay means that it is becoming gradually more difficult for employers to ensure their business remains profitable. Maintaining the distinction between the youth, development and adult rates of the NMW is also important for the significant percentage of ACS' members that use these rates of pay in their stores.

²³ ACS and other trade bodies privately submitted a joint letter to the Department for BIS and HM Treasury following the Chancellors comments and Treasury analysis that suggested the UK economy could sustain an increase in the National Minimum Wage to £7.

The LPC's remit to review the conditions that need to be in place to allow the value of the minimum wage to increase in real terms would have damaging impacts on retailers and the employment market. When wages increase, retailers have little choice but to reduce staff hours and delay investment. Convenience store retailers have consistently maintained that sales and profitability drive wage increases over other factors such as national average earnings. Employment sectors vary greatly in their ability to pay a higher minimum wage rate and smaller retailers are more negatively affected by above inflation increases in the NMW than larger businesses.

Any sharp increase in the minimum wage is a blunt instrument for driving up living standards and the wider impact on employment markets must be taken into account. The Low Pay Commission are performing a valuable role in making recommendations that balance the protection of low paid workers with the ability of businesses to perform profitably and maintain employment levels. We look forward to the opportunity to discuss these issues with the Commission in more detail.

For further information on this submission please contact Sophie Mew on sophie.mew@acs.org.uk or 01252 515001.

Appendix 1

ACS National Minimum Wage Survey Questions

1. What is the name of your organisation?
2. How many stores do you have?
3. How many staff do you employ?
4. In your businesses what is the typical hourly rate for staff aged 21 or over, not on probation or in a supervisory role? (£)
5. Do you pay staff any of the following rates in your business? Please tick –
development rate for 18 to 20 year olds £5.03 per hour, 16-17 rate £3.72 per hour, apprentice rate £2.68 per hour
6. Do you employ apprentices and if so what do you pay them (£)?
7. If you have laid off staff in the past 12 months was this due to:
 - a. *Increased employment costs*
 - b. *Reduced sales*
 - c. *Economy Downturn*
 - d. *Other (please specify)*
8. In the absence of National Minimum Wage what would influence your decision to increase staff wages?
 - a. *RPI*
 - b. *CPI*
 - c. *Sales*
 - d. *Profitability*
 - e. *National Average Earnings*
 - f. *Other (please specify)*
9. Have increases in employment costs led to any of the following, please answer yes or no for each:
 - a. *A reduction in the hours you employ staff for*
 - b. *An increase in the hours you have had to work*
 - c. *Impacted on your business expansion or investment plans*
 - d. *Made your business less competitive*

e. Affected pay structures within your business

f. An increase in product costs

g. A reduction in store opening hours

10. Please rate the following statements (strongly agree to strongly disagree):

a. NMW rate for adults should be frozen for 2015

b. NMW rate for adults should be increased to £7 an hour for 2015

c. NMW rate for adults should be increased by no more than the rate of inflation (currently 1.9%)

d. Only the NMW rate for adults should be increased, the youth and development rate should remain the same

e. Only the youth and development rates should be increased, the adult rate should be frozen

11. Employees have the right to opt into an automatic pension scheme if they earn over £111 a week or £481 a month and are aged between 16 and 74.

How many members of staff do you estimate you will enrol in an automatic enrolment pension scheme?

12. Please estimate the cost of administrative processes for auto enrolment?

13. When do you calculate your wage Bill for the financial year ahead?

a. Monthly Basis

b. Tax year (April)

c. When the NMW rates change (October)

d. Your own financial year

14. Do you have difficulties with NMW regulations and compliance?

15. Where would you go to get information about National Minimum Wage regulations?

a. Gov.uk website

b. Low Pay Commission website

c. Local authority websites

d. Trade association website

e. Paid for legal advisers

f. Other (please specify)

16. How many members of staff do you employ on zero hour contracts?
17. Employers are currently required to pay Statutory Sick Pay (£87.55 per week) to employees who are off sick between 4 days and 28 weeks.
- What is the total number of days that you have had staff on long-term sick leave for over the past 12 months?
18. Any other comments or issues?

Appendix 2

ACS Submission to National Minimum Wage: draft consolidated regulations

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the Government's consultation on the Draft Consolidation Regulations for the National Minimum Wage. ACS represents 33,500 local shops across the country including the Co-operative Group, Spar, Nisa Retail and thousands of independent retailers.

Convenience stores are affected by annual rises in the National Minimum Wage and the various substantial changes to the law since 1999. ACS has strongly advocated the need for policy developments to actively consider how changes in regulation will particularly affect the operation of small businesses. We therefore support the introduction of a single set of Regulations as this makes it easier for retailers to understand how the minimum wage rules apply to their business. In our survey of retailers, 67% stated they would use the Gov.uk website to find guidance on minimum wage regulations²⁴, underlining the importance that clear and consolidated regulations have for SMEs.

Clarity on exemptions to the minimum wage is particularly useful for ACS' members. Amongst independent convenience stores, 24% employ only themselves and members of their family, and 52% employ at least one other member of their family²⁵. The majority of independent retailers (63%) believe they earn less than the national minimum wage²⁶ when considering the number of hours they work. Any change in this law would therefore impact independent retailers negatively, forcing them to take on more hours and leaving them with less time to spend growing and improving their business.

ACS will continue to work with the Low Pay Commission and Department for Business, Innovation and Skills and engage with the Government's Redtape Challenge programme on retail relevant proposals. For further information please contact Sophie Mew via email: Sophie.mew@acs.org.uk or on 01252 515001.

²⁴ ACS NMW Survey 2014

²⁵ ACS Local Shop Report 2014

²⁶ ACS Voice of Local Shops May 2013