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

1. INTRODUCTION

The Rural Shops Alliance is a national trade association representing the views of about 7,500 rural shops. Although they cover a broad spectrum, a majority of them are convenience stores trading in villages or very small towns. Often a post office is also runs the premises. Most are family businesses, with the owners working alongside their staff on a day-to-day basis.

Inevitably many of the issues in the rural retail sector remain the same as those we have highlighted in previous years. However, the competitive environment is changing quite rapidly, bringing with it its own challenges and opportunities.

2. THE STATE OF THE SECTOR

The last couple of years have seen a major discontinuity and turning point in our industry. Quite suddenly, a sufficient number of consumers have modified the way they shop to cause a hiatus. Middle class consumers have started using the discount chains, particularly Aldi and Lidl, in much greater numbers. At the same time, many people are shopping more locally more often, spending less on each visit – this clearly benefits local convenience stores at the expense of supermarkets. And thirdly, there is no sign of the ever-increasing use of home shopping services abating, although none of the operators make much profit from them.

In addition, expenditure on food has actually declined slightly. This has been caused by a mix of factors, but it again highlights just how challenging trading conditions currently are.

Taken together, these changes have caused massive soul-searching amongst the “Big 4” food chains (Tesco, Sainsburys, Asda & Morrisons), as they see the returns on their huge investments in out-of-town sheds suddenly looking far lower than they were expecting even a couple of years ago. They are responding by aggressive pricing and offers. We expect this new retail environment to continue into the medium term, with the future of Morrisons as an independent operator in some doubt.

Against this background, the competitive pressures on our members have increased markedly. Clearly the trend towards local shopping is helpful, but the almost desperate attempts by the big supermarkets to retain their market shares in the face of the expansion of Aldi and Lidl inevitably catches our members in the crossfire.

This background is to demonstrate the key point, that small retailers have virtually no ability to increase prices to pay for any increase in their costs. For most, there is no fat, no surplus that could **be** used to fund increased wage costs.

3. STAFF COSTS

Are we have pointed out in previous submissions, the cost of employing staff goes far beyond the wages they are paid. In April 2014, employers became responsible for the total cost of paying Statutory Sick Pay. This change clearly adds to the cost of employing staff, particularly as the employer not only has to pay the wages of the absent staff member but also pay for somebody else to cover their work.

The next additional cost will be auto enrolment of staff into a pension scheme, with employers expected to make a contribution. Although most employers would welcome the principle of their staff being members of a pension scheme, the administrative overhead and the cost of their contributions together are yet further increases in the effective hourly cost of employing staff.

We would strongly suggest that the increased costs of non-wage benefits enjoyed by employees needs to be part of the equation when determining the National Minimum Wage rates. They are part of the benefits package enjoyed by staff.

4. EMPLOYMENT IN THE SECTOR

Self-evidently, retail is a labour intensive industry, with staff costs in convenience stores typically making up about 10% of turnover and absorbing perhaps half the gross profit on the goods sold. Successful small retailers have to keep the number of staff hours they employ as tight as possible. In practice, this often means that proprietors themselves work punishingly long hours, particularly when a member of staff is off sick or on holiday, when they are often not directly replaced and their work is covered by the business owners. Apart from the impact on their work life balance, this does affect the business in unquantifiable ways. It means that proprietors are spending time holding the business together rather than actually managing it, by thinking what needs to change or developing it for the future. It is an unhealthy situation that leads to short termism and businesses ultimately not developing and changing in line with the market.

It is usual in our part of this industry for proprietors to be working themselves for less than the national minimum wage rate per hour. The unfairness of this is a fact of life that they accept with a wry resignation. An above inflation increase in the NMW or a move to the living wage for staff would however exacerbate this position. It is inherently unfair.

The very long hours and the limited financial returns do affect the number of new entrants into the industry. We would quote just one example we have recently encountered. There is a rural shop in Dorset that has been up for sale for about 18 months, without a buyer coming forward. Profit is about £45,000 per annum, which sounds very good, until you realise that the business is open for about 80 hours a week in order to achieve the turnover and that the proprietors themselves are standing behind the counter for the vast majority of those hours, spread over seven days a week. Paying a manager and shop assistants to operate the shop at normal retail rates per hour would actually make the shop break even at best. When prospective purchasers do their sums, they walk away.

In general, rural shops do not have a great deal of difficulty in recruiting staff. Particularly in low-wage parts of the country, then a not unpleasant and steady job close to home without travel costs is very attractive. The work can also be very attractive to sixth formers and students looking for flexible work patterns to fit in around other commitments.

Over the years, the differential between experienced or supervisory staff and junior workers has been steadily eroded. It is now quite normal for new members of staff to be paid at or slightly above the national minimum wage, with longer serving members of staff being paid pence rather than pounds more.

Significant numbers of part-time staff in the sector are eligible for the 16 to 17 rate or the development rate. Quite often, proprietors argue that if they are doing the same job as older staff they should be paid the same rate and pay them at the adult NMW. Conversely, employees under the age of 18 are unable to serve age restricted products such as tobacco or alcohol and are therefore less productive – this can be a genuine reason for paying a lower rate to them.

5. THE FUTURE – A SOLUTION

We would agree that it is quite legitimate to want to increase real wages in industries that can afford them. However, the National Minimum Wage does what it says on the can – it is an absolute minimum that applies across-the-board. If further refinement is needed, then one answer is to reinvent the industry by industry arrangements that used to exist. But for small retailers, the position is quite clear. Too great an increase in the NMW would harm real businesses and real jobs.
The picture painted so far-provides little scope to meet the government's averred objective to use the national minimum wage to increase pay in our sector.

The problem of very low pay is of course concentrated in specific sectors of the economy, for example retail, social care, hairdressing, hospitality and catering, agriculture, food-processing, security and cleaning. They are all sectors where wages make up a high proportion of total costs, where a lot of the work is relatively unskilled and open to casual workers and new entrants and where strong competition prevents profit margins rising sufficiently for proprietors to pay workers a premium.

The question then arises, that if government wishes to see wages in industries such as these to improve, what can government do to create the higher gross profits that will enable the businesses concerned to pay their staff at a higher rate?

In the rural retail sector, it is very hard indeed to improve overall profitability and hence allow proprietors to pay their staff a higher rate per hour. However, it can be done. The two keys are to improve the quality of management and for owners to invest more capital in the sector.

In the past there have been government schemes to address just these two issues. Back in the 1990s, there was a very successful government funded scheme run by the Rural

Development Commission to help rural retailers through professional advice on how to improve their businesses, backed up by a grant scheme to help them implement the recommendations. This scheme was carried forward by the successor organisation, the Countryside Agency. When this in turn was replaced by Regional Development Agencies, only two of them did implement schemes to carry forward this work, with the last of these (Store Is The Core, originally supported by SWRDA and inherited by DEFRA when SWRDA was abolished) having ended as late as December 2013. The current successor organisations, the LEPs, have not carried this work forward.

We would suggest that the only way in practice for government to achieve its objective of increasing the national minimum wage without impacting negatively on the industries most affected by it would be to have an explicit policy to set up schemes to help them improve their productivity. They would then be in a position to pay the level of wages that government would wish to see. Targeted schemes would actually not be very costly in budget terms and would hopefully in the long-term more than pay themselves through reduced payments under schemes such as the working tax credit and increased receipts from income tax. Although clearly we know how such a support scheme would work only in the rural retail sector, we would assume that similar approaches could work in other industries.

The Commission has been tasked with outlining the circumstances under which real wages could be increased. We would see this type of activity being one way to answer this question in a positive way.

Without increasing staff productivity, any attempt to increase wages faster than prices will lead to damage to the industry over the long term – the usual response of cutting back on staff hours, reducing capital investment etc. These approaches solve the short term problem but only at the expense of the longer term.

6. OVERALL RECOMMENDATION

Rural shop owners would, in the main, genuinely like to be in a position whereby they could pay their staff at a higher rate. The very strong competitive situation the market means that without a "game changer" most of our members could only pay and above inflationary increase in wages at the cost of some other aspect of their business, sacrificing long-term sustainability for short-term survival. This situation is likely to remain in to the medium term unless specific action is taken to address the underlying problems.

With regret, we would therefore strongly recommend that the national minimum wage can only increase by inflation this year.

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