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Scottish Grocers' Federation

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NATIONAL LIVING WAGE PROJECT

THE REAL COST OF EMPLOYMENT

A paper from the University of Stirling and Scottish Grocers Federation

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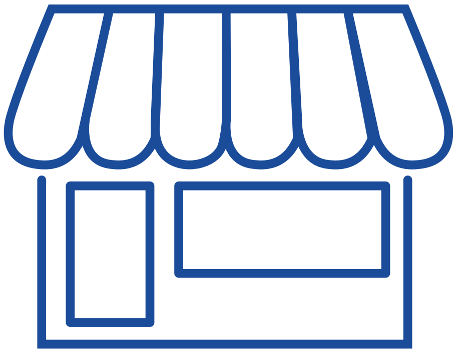

There are over **5,037** convenience stores in Scotland. They provide **42,000** jobs.

In 2021 retailers in Scotland invested **£62 million** in their businesses. Constantly increasing staff costs are one of the biggest challenges the independent convenience store sector faces.

£12.75 PER HOUR

The rate of the NLW for 2022 is £9.50: with the addition of a range of a range of on-costs the real cost of employment for convenience retailers will be £12.75 per hour.

The retail sector has been one of the most significantly impacted areas of the economy by the National Minimum Wage (NMW) and the National Living Wage (NLW). Smaller firms are proportionately more affected by the NMW and the NLW than larger firms. In Scotland over **81%** of staff in C-stores are in the 25 year old and above age range – which falls within part of the age range impacted by the NLW (which is 23 years and above).

2022 rate of NLW

£9.50

Real Cost of employment

£12.75

Sources:
Scottish Local Shop Report 2021

The National Living Wage Project

The last two years have been dominated by the pandemic and the various challenges that we have all faced. This global disruption has had long-lasting but still emerging impacts, very few of which could have been anticipated. The personal cost for so many families has been enormous.

One might have hoped that as we begin in the UK to learn to live with an endemic situation (at best) that things would settle into a steadier state. Convenience retailers played a magnificent role during the pandemic as a true local source of product, but also support. Whilst costs rose to deal with the situation, so trade switched to local stores. Whilst probably not anticipating all these gains to continue, convenience stores hoped for some longer-term sales benefit from their professionalism.

For a variety of reasons, the situation is anything but stable. The war in Ukraine has altered geo-politics and ruined lives, but also impacted product and energy supply. Supply chains have also been interrupted and disrupted by the imposition of Brexit, the supply disruption of Covid and the volatility of demand globally. The smooth flows that produce efficient and effective supply chains are broken. This has been exacerbated by the rising costs of energy, of all forms, and in the UK, government-imposed tax (National Insurance), cost increases and net benefit reductions. All this has resulted in an increasing rate of inflation and a cost-of-living crisis for many, which is already hitting many and is predicted to deepen further over the coming year.

The results of this, and a labour market tightening, is a demand for higher wages to offset higher consumer costs. This is impacting large retailers who are having to pay above national living wage to retain and recruit staff. Smaller retailers (and other sectors such as hospitality) are less able to afford this, and depending on location, struggle to get and keep workers.

At a time of national crisis, high inflation and cost of living increases it is hard to argue that the lowest paid do not deserve extra support. This is behind the large increase in the National Living Wage for 2022, but pressures to go further and do more will no doubt continue into at least 2023. Convenience retailers though are also affected by the supply and energy inflationary costs and what may become a slow down in demand. Wage costs are a large proportion of shop costs and substantial increases impact profitability,


Professor Leigh Sparks

employment sustainability and business survival. This is especially the case when the scope for price rises is limited, or stifles demand due to consumer affordability.

There are no easy answers to this. Our table and data is intended to show that the headline rate is one element, but there is a related, cascading cost increase to the business of the headline rate setting. These costs are unavoidable for the business but rarely receive a mention. The setting of national pay rates such as the National Living Wage needs to balance many things but being clear about the rate for the worker but also the true cost for the employer, would seem to be critical in having a sensible discussion of rates and impacts.

Convenience stores are faced with a National Living Wage increase of 59p at April 2022. The employee receives £9.50 per hour. With the direct add-on costs for the retailer this £9.50 becomes £12.75 i.e. an additional 34% cost to the retailer above the National Living Wage. A 6.6% increase in the National Living Wage for the worker (from April 2022) has become, through directly related and other cost increases (e.g. National Insurance), an 8% increase for the retailer. In 2016 these direct and additional costs were a 28.8% increase on the National Living Wage; the figure for 2022 is 34.2%.

When added to the other increased costs of doing business (e.g. energy), the situation facing many convenience and smaller stores is challenging to say the least. For a sector that has faced very difficult times over the last two years, the prospects are concerning.

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National Living Wage Project Report On 2022 – 2023

Components of the Total Pay Cost	National Living Wage after 1st April						
	2016	2017	2018	2019	2020	2021	2022
1) Wages	7.20	7.50	7.83	8.21	8.72	8.91	9.50
2) SSP (statutory sick pay)	0.53	0.55	0.57	0.60	0.64	0.65	0.70
3) NI Employer	0.24	0.25	0.26	0.27	0.29	0.29	0.45
4) Pension Enrolment/Scheme	0.01	0.01	0.01	0.25	0.26	0.27	0.29
5) Statutory Holiday Pay – coverage staff	1.00	1.04	1.09	1.14	1.21	1.24	1.32
6) Uniforms	0.04	0.04	0.04	0.04	0.05	0.05	0.05
7) Other Statutory Payments	0.07	0.08	0.08	0.08	0.09	0.09	0.10
8) Lunch Benefits etc.	0.03	0.03	0.03	0.03	0.04	0.04	0.04
9) Recruitment costs	0.02	0.02	0.02	0.02	0.03	0.03	0.04
10) Administration and accounting costs directly related to employment (including software)	0.05	0.05	0.06	0.06	0.06	0.12	0.14
11) Death in service benefits/critical and terminal illness cover	0.04	0.04	0.04	0.04	0.05	0.05	0.05
12) Private health care	0.04	0.04	0.04	0.04	0.05	0.05	0.05
13) External Health and Safety Compliance advice/ external HR and employment law advice	0.01	0.01	0.01	0.01	0.01	0.01	0.02
TOTAL	**9.28**	**9.66**	**10.08**	**10.79**	**11.50**	**11.80**	**12.75**

(This data was produced by Dr Maria Rybaczewska at the University of Stirling)