



# NATIONAL LIVING WAGE PROJECT

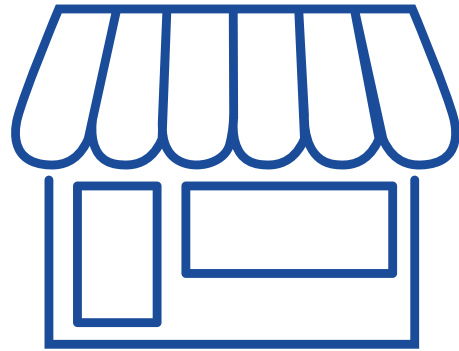
# THE REAL COST

# OF EMPLOYMENT

A paper from the University of Stirling  
and Scottish Grocers Federation



MARCH 2020



There are almost **5,000** convenience stores in Scotland. They provide **44,000** jobs.

In 2019 retailers in Scotland invested **£64 million** in their businesses. Constantly increasing staff costs are one of the biggest challenges the independent convenience store sector faces.

## £12.76 PER HOUR

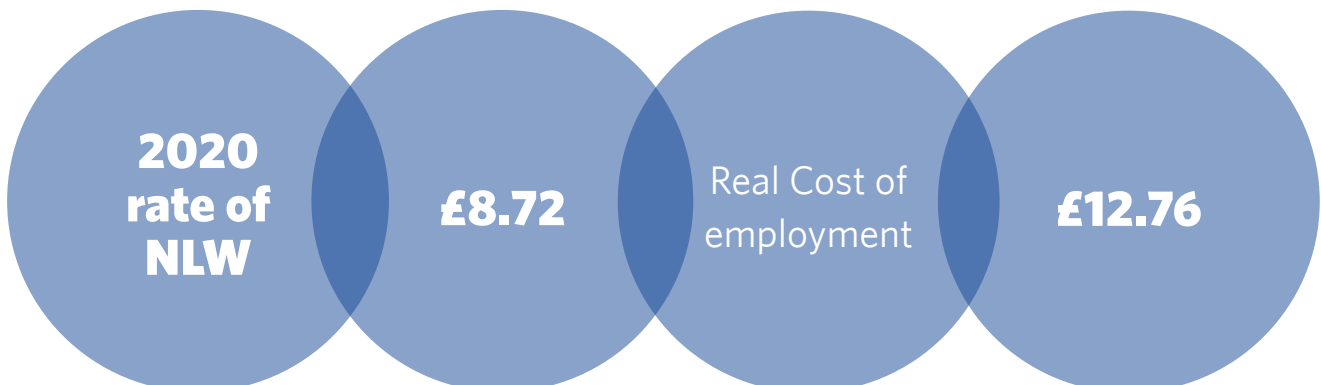
The rate of the NLW for 2020 is £8.72: with the addition of a range of on-costs the real cost of employment for convenience retailers will be £12.76 per hour.



The retail sector has seen the biggest impact of the National Minimum Wage (NMW) and the National Living Wage (NLW), with almost

**500,000 workers** affected.

Smaller firms are proportionately more affected by the NMW and the NLW than larger firms. In Scotland **79%** of staff in C-stores are in the over-24 year old age range - the age range impacted by the NLW.



# The National Living Wage Project



Professor Leigh Sparks

Convenience retailing, as with other forms of retailing, is reliant on staff; staff are a crucial resource providing operational and customer service and are the face of the business. Retailers want good employees and to see them have good working conditions, including pay. Staff though are one of the major expenses of a retail business. Small and independent convenience retailers have less scope than others to replace people by technology. It is not clear in any case if that is what their customers and communities actually want or need.

Pay in retailing is determined in many cases by the setting of the National Living Wage. It is hard for retailers to argue against the National Living Wage or good pay in general for their employees; and many do not want to. However the implications of the headline figure and its annual increases are not well understood, particularly around the impact on the employing retail businesses. Our table shows that the recent per hour increase (April 2020) of 51p (to £8.72 per hour), for the retailer turns into an increase of 79p (to £12.76 per hour). This is because many retailer employee costs are pro-rata against the base national Living Wage. Whilst inflation is at 1.8% (January 2020), the National Living Wage rose by 6.2% (baseline) and 6.6% (for the retailer).

Such inflation busting increases are bordering on the unsustainable, despite the well-intentioned and well-received motives behind this. This is not due to the rate itself; retailers do want to pay their staff well. This increase however adds to a long line of cost pressures, which cumulatively reduce the profit, and scope of retailers to be sustainable, or to afford the increases. Thus, the Apprenticeship Levy, Business Rates, Deposit Return Scheme, Auto-enrolment of Pensions, and Tobacco, Alcohol and potentially Food marketing restrictions, amongst others, have dramatically increased the cost burden on retailers over the last few years. Sustainable local, independent, convenience retailing is under threat from the cumulative cost pressures, reducing business performance, including productivity. This is exacerbated by the knowledge that some of the competitors e.g. online businesses, do not have some of the costs burdens, nor do they face the same tax rates.

This is an unfair situation. If the National Living Wage is to keep on rising, then small retailers need to be absolved of some of these other burdens and costs, so as to be able to afford it, which is what they want to be able to do.

# National Living Wage Project

## Report On 2020 - 2021

Components of the Total Pay Cost	National Living Wage after 1st April				
	2016	2017	2018	2019	2020
1) Wages	£7.20	£7.50	£7.83	£8.21	£8.72
2) SSP (statutory sick pay)	£0.53	£0.55	£0.57	£0.60	£0.64
3) NI Employee	£0.23	£0.24	£0.25	£0.26	£0.28
4) NI Employer	£0.24	£0.25	£0.26	£0.27	£0.29
5) Pension Enrolment/Scheme	£0.01	£0.01	£0.01	£0.25	£0.26
6) PAYE	£0.81	£0.84	£0.88	£0.92	£0.98
7) Statutory Holiday Pay - coverage staff	£1.00	£1.04	£1.09	£1.14	£1.21
8) Uniforms	£0.04	£0.04	£0.04	£0.04	£0.05
9) Other Statutory Payments	£0.07	£0.08	£0.08	£0.08	£0.09
10) Lunch Benefits etc.	£0.03	£0.03	£0.03	£0.03	£0.04
11) Recruitment costs	£0.02	£0.02	£0.02	£0.02	£0.03
12) Administration costs directly related to employment	£0.05	£0.05	£0.06	£0.06	£0.06
13) Death in service benefits/critical and terminal illness cover	£0.04	£0.04	£0.04	£0.04	£0.05
14) Private health care	£0.04	£0.04	£0.04	£0.04	£0.05
15) External Health and Safety Compliance advice/external HR and employment law advice	£0.01	£0.01	£0.01	£0.01	£0.01
<b>TOTAL</b>	<b>£10.32</b>	<b>£10.74</b>	<b>£11.21</b>	<b>£11.97</b>	<b>£12.76</b>

### Key comments:

1. The NLW after 1st April 2020 is becoming £8.72 but the total pay cost will be closer to £13/hour i.e. £12.76. The headline figure equals £8.72 but the real year to year difference in cost to retailers is £0.79 instead of £0.51 per hour. This difference is 55% more than the headline calculation would suggest.
2. The NLW is rising faster than inflation. According to the Office for National Statistics the Consumer Prices Index including owner occupiers' housing costs (CPIH) 12-month inflation rate was 1.8% in January 2020 (www.ons.gov.uk published on 19 Feb 2020), whereas 12-month NLW growth (April 2019-April 2020) equals 6.2%.

3. Considering inflation (CPIH) versus NLW (even more evident for total pay cost) - point 1 - the retailers are increasingly adversely affected by the increase of the NLW every year (i.e. turnover does not rise as quickly as total pay cost, even from the point of view of CPIH only). Consequently, the retailers' income is likely to be shrinking every year from the perspective of these determinants.

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