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NATIONAL LIVING WAGE PROJECT

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# THE REAL COST OF EMPLOYMENT

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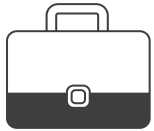
A paper from the University of Stirling and Scottish Grocers Federation

APRIL 2023

## THE REAL COST OF EMPLOYMENT



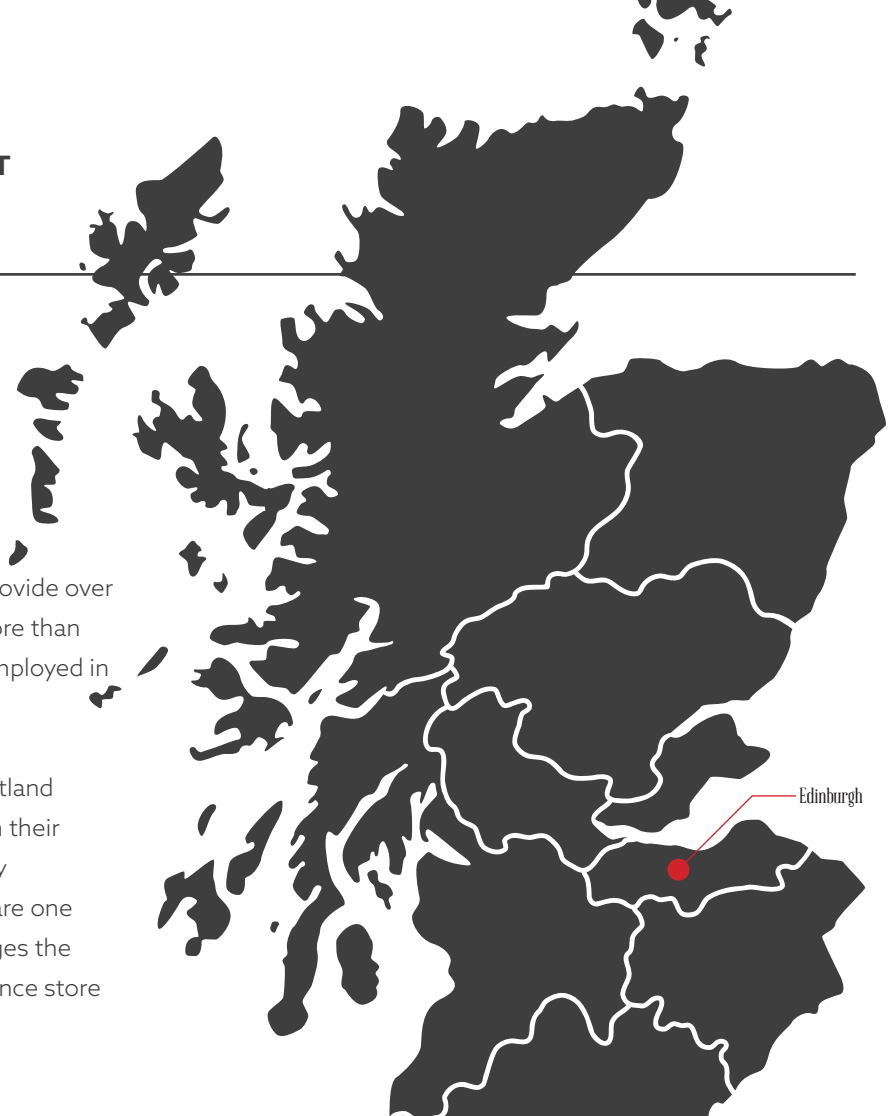
There are **5,098** convenience stores in Scotland.



Convenience stores provide over **49,000** jobs. While more than **230,000** people are employed in retail across Scotland.



In 2022 retailers in Scotland invested **£65 million** in their businesses. Constantly increasing staff costs are one of the biggest challenges the independent convenience store sector faces.



# £14.00 PER HOUR

The rate of the NLW for 2023 is £10.42. With the addition of a range of on-costs, the real cost of employment for convenience retailers will be **£14.00** 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 79% 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).

This has been a winter of labour discontent. Strikes have become commonplace across the economy. At the heart of these are demands for better pay (and conditions), contracts and fairer workloads in some sectors. The full implications of Brexit, the recovery from Covid and the ongoing energy crisis arising from Russia's invasion of Ukraine have combined with a decade of austerity in the UK. This has not been helped by the economic turmoil brought about by the revolving doors of Prime Minister and Chancellor in the latter part of 2022. The outcome is the sharpest fall in living standards in decades and a 40 year high in inflation. It is no wonder demands for pay increases have become so commonplace and vocal.

This is seen as a cost-of-living crisis. It is affecting many, though not all, in the economy. People feel worse off and their bills, whether energy, utilities, rent, rates, mortgages and so on are all increasing. Inflation and especially the price of food in shops, has sky-rocketed and being so visible has added pressure on to pay demands. Life has become harder and more of a struggle especially for those on lower incomes. The contrast with their status as 'key workers' in the pandemic could not be more stark.

The understandable reaction to this cost-of-living crisis is to demand pay increases to soothe the cost rises and, in some cases, catch-up lost wages from austerity. If inflation is running at 11% then why are workers expected to put up with a pay rise of 2%?

It is in this context of economic turmoil and a cost-of-living crisis beyond that of most living memories, that the April 2023 National Living Wage has been set. In April 2023 the headline figure will rise by £0.92 to an hourly rate of £10.42 (i.e. an increase of 9.7%). For those lowest paid in the economy this will be a welcome boost in these circumstances, and it is hard to argue against this.

There is though, a second crisis at play here, and it is a cost of doing business crisis. This affects all businesses

(and indeed public sector and other organisations) but is perhaps more keenly felt in smaller operations. Convenience store retailers for example have been affected by all the business cost increases in the economy, including energy. The cost of doing business in this sector has accelerated rapidly, at a time of weak consumer demand in many places.

This is the eighth year we have run an analysis of the direct relationship on other labour costs of the rise in the National Living Wage. This year we have tested our relationships with a sample of convenience retailers and find they still hold. Raising the National Living Wage directly increases other costs for the retailer and drives up the cost of doing business. Our figures in the table

show that the £10.42 wages rate is in fact £14.00 for the retailer. This true cost of doing business in terms of labour has to be paid for from somewhere.

For some, especially larger businesses, often operating in major urban areas there is an added problem; the lack of labour. Major retailers have provided their workers

with multiple pay increases this year already, taking the rate above that of the National Living Wage (and the estimated Real Living Wage of £10.90). This is due not only to a recognition of the cost-of-living crisis but the tightness of the labour market in some places. By paying more they hope to keep and attract labour. This is far less affordable for smaller retailers.

This true cost of labour is not the only cost of doing business of course. Convenience retailers continue to be faced with high energy and property costs as well as administration and management costs beyond those associated with labour. This helps explain in part the sector's vocal concerns over the associated costs for businesses of implementing new government schemes and proposed regulations. Convenience retailers cannot face further cuts in profitability and have limited capacity to increase prices (which of course only reinforces the inflationary cycle).



## 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	2023
<b>1 Wages</b>	7.20	7.50	7.83	8.21	8.72	8.91	9.50	10.42
<b>2 SSP (statutory sick pay)</b>	0.53	0.55	0.57	0.60	0.64	0.65	0.70	0.77
<b>3 NI Employer</b>	0.24	0.25	0.26	0.27	0.29	0.29	0.45	0.49
<b>4 Pension Enrolment/Scheme</b>	0.01	0.01	0.01	0.25	0.26	0.27	0.29	0.32
<b>5 Statutory Holiday Pay - coverage staff</b>	1.00	1.04	1.09	1.14	1.21	1.24	1.32	1.45
<b>6 Uniforms</b>	0.04	0.04	0.04	0.04	0.05	0.05	0.05	0.06
<b>7 Other Statutory Payments</b>	0.07	0.08	0.08	0.08	0.09	0.09	0.10	0.11
<b>8 Lunch Benefits etc.</b>	0.03	0.03	0.03	0.03	0.04	0.04	0.04	0.05
<b>9 Recruitment costs</b>	0.02	0.02	0.02	0.02	0.03	0.03	0.04	0.05
<b>10 Administration and accounting costs directly related to employment (including software)</b>	0.05	0.05	0.06	0.06	0.06	0.12	0.14	0.15
<b>11 Death in service benefits/critical and terminal illness cover</b>	0.04	0.04	0.04	0.04	0.05	0.05	0.05	0.05
<b>12 Private health care</b>	0.04	0.04	0.04	0.04	0.05	0.05	0.05	0.05
<b>13 External Health and Safety Compliance advice/external HR and employment law advice</b>	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.03
<b>TOTAL</b>	<b>9.28</b>	<b>9.66</b>	<b>10.08</b>	<b>10.79</b>	<b>11.50</b>	<b>11.80</b>	<b>12.75</b>	<b>14.00</b>

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

### SGF MEMBERS SURVEY: IMPACT OF PROPOSED INCREASES TO NLW & NMW

**71%**

of retailers say  
wage increases  
will impact the  
viability of their  
business

**79%**

say they are less  
likely to hire  
new staff due to  
wage rises

**70%**

say they are  
working more  
than 65hrs per  
week, to keep  
wage costs down

(All survey figures are based on information provided by respondents, and not necessarily representative of all SGF members.)