

Low Pay Commission
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9th June 2023

To whom it may concern,

LOW PAY COMMISSION CONSULTATION 2023

Please find enclosed the Scottish Grocers' Federation (SGF) response to the consultation above. I also attach a copy of a paper produced with the University of Stirling entitled '**National Living Wage Project – The Real Cost of Employment**'. (Also available online at: <https://www.sgfscot.co.uk/publications/true-cost-of-employment>)

We trust that you will find our comments helpful and are happy to engage further with you on this important matter.

Yours sincerely,

Jamie Mackie
Policy and Public Affairs Officer (**Scottish Grocers Federation**)

(Link to consultation page: <https://www.gov.uk/government/consultations/low-pay-commission-consultation-2023>)

- SGF gives permission to the Low Pay Commission to publish this consultation response, and to share this response internally with other policy departments that may be addressing the issues discussed.
- SGF is also content to be contacted again in the future, in relation to this consultation exercise.

CONSULTATION QUESTIONS

SGF welcomes the opportunity to contribute to the consultation exercise and have responded to questions **1, 2, 3, 4, 5, 14 15, 18, 19, 23, 35, 31 32, 37, 38 and 40** below:

About you

1 - Please provide information about yourself or your organisation. If possible, include details about your location, the type of job or business (occupation and/or sector) you are involved in, your workforce if you are an employer (including number of minimum wage workers), and anything else you think is relevant.

The Scottish Grocers' Federation ([SGF](#)) is the leading trade association for the Scottish Convenience store sector. There are 5,098 convenience stores in Scotland, which includes all the major symbol groups, co-ops, and convenience multiples in Scotland ([Scottish Local Shop Report 2022](#) (SLSR 2022)).

SGF promotes responsible community retailing and works with key stakeholders to encourage a greater understanding of the contribution convenience retailers make to Scotland's communities. In total, convenience stores provide around **49,000 jobs in Scotland** (SLSR 2022).

Convenience stores trade across all locations in Scotland, providing a core grocery offer and expanding range of services in response to changing consumer demands close to where people live. The valued services provided by local shops include mobile phone top-up (83%), bill payment services (78%), cashback (70%), and branches of the Post Office network (27%) (SLSR 2022).

Over the last year, the UK convenience sector contributed over £9.7bn in GVA and over £9bn in taxes. The sector is more relevant than ever to every type of customer and has key social benefits and is of key economic value to the economy (SLSR 2022).

Our Scottish Local Shop Report 2022 also highlights through consumer polling that convenience stores are ranked first, at 47%, as having the most positive impact on the local area.

Modern convenience stores are community assets and now more than ever have an increasingly important role in their local communities. **As local economic multipliers, they are important employers of local staff, with that money often put back into the local community and helping to strengthen local economies.** Many convenience stores are the “glue” in social and economic community building.

Due to the requirement to manage staff costs, many independent shop owners work more than 60 hours per week and 28% take no holidays throughout the year. Almost half (45%) employ at least one family member as staff.

Women are highly represented in convenience retail, filling around 74% of staff posts. Staff also benefit from locally based flexible working hours, with 69% of employees working fewer than 30 hours per week, and 55% walking to work (SLSR 2022).

In a recent SGF survey of Scottish convenience retailers, from March 2023, 72% of respondents highlighted that staff either value or greatly value the ability to work flexibly, in order to meet at-home commitments. With the majority of staff also requiring local employment, as opposed to travelling outside of the local area.

The National Living Wage

2 - What has been the impact of the National Living Wage (NLW) in the past year, including the rise to £10.42? Our critical interest is in its effects on employment, hours and earnings. We are also interested in the effect of the NLW on any of the areas listed below:

- a. Profits
- b. Prices
- c. Productivity
- d. Pay structures and differentials
- e. Progression and job moves

- f. Training
- g. Investment
- h. Recruitment
- i. Job quality and security

SGF published its yearly 'National Living Wage Project – The Real Cost of Employment' paper in conjunction with the University of Stirling on 1st April 2023 (copy attached). It highlights that **there is a clear divergence between the NLW and the actual cost of employment to retailers**. With smaller businesses proportionately more affected by NMW and NLW levels, constantly increasing staff costs are one of the biggest challenges the independent convenience store sector faces.

A recent survey carried out by SGF of Scottish convenience retailers shows that 71% are concerned that future wage increases will impact the viability of their business. The table below, using data from the 'Real Cost of Employment' paper outlines this concern. Noting **a jump of £1.25 on the previous year and the highest increase of at least the past eight years**.

Staff pay Year	NLW	Real cost of employment
2016	£7.20	£9.28
2020	£8.72	£11.50
2021	£8.91	£11.80
2022	£9.50	£12.75
2023	£10.42	£14.00

Pay in retailing is determined for many by the setting of the National Living Wage and we have seen a large increase in the National Living Wage for 2023. However, with inflationary and interest rate pressures set to go further into 2024 this will no doubt continue to increase wage costs into at least the following year.

Convenience retailers are also affected by supply, energy costs and cost-of-living issues that may create a slowdown in demand. **Wage costs are a large proportion of shop costs and substantial increases impact profitability, 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. Many retailers are also facing their own cost-of-living crisis with stubbornly high food inflation, especially for staple items, impacting both their business and household budgets.

There are no easy answers to this. Our table and data in our 'National Living Wage Project – The Real Cost of Employment' paper 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 92p in April 2023. The employee receives £10.42 per hour. With the direct add-on costs for the retailer this £10.42 becomes £14.00 (i.e. an additional 34% cost to the retailer over and above the National Living Wage). **A 9.7% increase in the National Living Wage for the worker (from April 2023) has become, through directly related and other cost increases (e.g., National Insurance), a £1.25 increase per staff member per hour.** In 2016, these direct and additional costs were a 28.8% increase on the National Living Wage, the figure for 2023 is 34.4%.

When added to the other increased costs of doing business (e.g., energy, business rates and investing in regulatory changes), 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 three years, the prospects are concerning.

3 - To what extent has the NLW affected different groups of workers, particularly those with protected characteristics (for example women, ethnic minorities and those with disabilities) and migrant workers?

As has been seen through the covid pandemic, convenience stores now more than ever, are seen as community assets which are at the heart of both community and economic activity. Our Scottish Local Shop Report 2022 highlights that 75% of independent Scottish retailers engaged in some form of community activity in the past year and as well as

providing vital services they are supporting the local economy by providing local jobs for local people.

In the convenience sector, women make up the significant majority of the workforce with 74% being employed within the convenience sector. The industry also prides itself on being good and flexible employer and one which is open to all. Staff also benefit from locally based flexible working hours, with 69% working fewer than 30 hours per week and 55% walking to work (SLSR 2022).

4 - How has the NLW's impact varied across different areas of the UK?

Our Scottish Local Shop Report 2022 shows that in the UK convenience stores trade across Rural (36%), Urban (37%) and Suburban (27%) locations and that in Scotland there is approximately one shop per 1,072 people.

As mentioned earlier in our answer to Question 2, **wage costs are a large proportion of shop costs and substantial increases impact profitability, employment sustainability and business survival.** This alone is a key challenge however they are also having to contend with supply chain disruption, the cost-of-living crisis, rising fuel and utility costs, business rates and a steady stream of legislation from government which add to operational costs. These issues are likely to be long-term in nature and effect.

Stores that are located for example in city centres may struggle to get and keep workers given the competitive nature of the retail employment market and to do so may have to offer wages above the NLW which may not be sustainable particularly if they are smaller stores. Brexit and other factors have also increased the difficulty of recruitment and retention. SGF has been working with the Department for Work and Pensions to promote the various industry specific recruitment schemes available through the Job Centre.

When the NLW rates are being set they need to be cognisant of these issues and to reflect an understanding of the current national economic situation and trading environment which convenience retailers are trying to deal with.

5 - At what level should the NLW be set from April 2024? Our current central projection for the on-course rate is £11.16 within a range of £10.90 and £11.43.

The Scottish convenience sector is primarily based in physical store outlets and so having retail staff on site to operate and manage them, engage with customers and so effectively to be the face of the business is of critical importance. Wage costs are a large proportion of shop costs and substantial increases impact profitability, 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. **Ultimately, many of these extra costs are passed on to customers and households who themselves, are having to contend with their own budget pressures.**

Some convenience retailers have reported to SGF that they have been forced to reduce staff hours in order to meet the cost increase associated with the increase to the NMW and NLW. It is vital that the commission recognise that the capacity for retailers to absorb additional costs is now very limited and further wage increases may result in fewer jobs within communities and may impact on business viability.

Our recent survey of SFG members, March 2023, shows that 79% of respondents are less likely to hire new staff due to wage rises and 97% told us that they were either unlikely or very unlikely to increase the number of staff hours. Meanwhile, 65% say they are working longer hours in order to keep staff costs down.

Young people

14 - What has been the effect of changes in the minimum wages for young people on their employment prospects?

Convenience retailers take pride in being able to offer young people, in many cases, their first step into the employment market by working in their local shop.

Our Scottish Local Shop Report 2022 indicates that 21% of colleagues in the Scottish convenience sector are aged 16 to 24 years old.

15 - How do the youth minimum wage rates influence employers' decisions about hiring and young people's decisions about employment?

Retailers are facing the same decisions on youth employment as in other areas of staff recruitment. Please reference Questions 2 and 5 above.

18 - To meet the Government's 2024 target the NLW age threshold would be lowered to 21 in 2024. What impacts do you think this would have, including on employment?

Please see the answers to Question 5 above and Question 19 below.

19 - At what level should these rates be set from April 2024?

The NMW youth rates for April 2024 need to reflect the exceptional operational and trading environment that convenience retailers and other businesses are having to contend with during this time. **Any increase needs to be proportionate, or it may damage the viability, profitability and long-term sustainability of Scottish convenience retailers and the opportunities the sector can offer** by way of work experience and a route into employment.

Minimum wages after 2024

23 - The potential effects of further minimum wage increases and risks we should consider.

Please see answers to Questions 2, 4 and 5 above.

A recent survey of Scottish convenience retailers, carried out by SGF in March 2023, highlighted that **72% of respondents are either concerned or very concerned by proposed future increases to the National Living Wage and National Minimum**

Wage. With 94% noting that future increases could impact on the viability of their business.

25 - The evidence that should inform future policy decisions.

Please see answers to Questions 2, 4 and 5 above

Compliance and enforcement

31 - What issues are there with compliance with the minimum wage and what could be done to address these?

SGF recognises the importance of compliance and the legal obligations that convenience retailers have as employers. It promotes responsible community retailing and communicates a consistent message to ensure that our members have a clear understanding of their responsibilities under the law (e.g., employment law).

Our members stores are also community assets and shop owners take pride in serving their communities and know that they must pay staff in accordance with statutory requirements.

32 - What comments do you have on HMRC's enforcement work?

In carrying out its enforcement work, it is important that HMRC can distinguish between genuine businesses with may have made genuine errors and those rogue businesses that deliberately break their responsibilities and duties as required under employment law.

Economic outlook

37 - What are your views on the economic outlook and business conditions in the UK for the period up to April 2024? We are particularly interested in: - the conditions in the specific sector(s) in which you operate. - the effects of Government interventions to support the economy and labour market. - the current state of the labour market, recruitment and retention.

Our Scottish Local Shop Report 2022 indicates that convenience stores in Scotland provide around 49,000 jobs.

While the convenience sector through the efforts made by everyone in the industry remains resilient, it still has significant challenges to deal in terms of the long-lasting impact of the pandemic, high inflation, interest rates and energy costs and the cost-of-living crisis.

Retailers are also having to contend with the ongoing additional burden of new legislation from government. There are already new measures on the way such as a Scottish Deposit Return Scheme, possible new restrictions around foods high in fat sugar and salt, and tightening rules on advertising and promoting of alcohol products and other items such as vaping products.

The majority (87%) of retailers responding to a recent survey conducted by SGF highlighted that an increase in turnover in the past year has not been equivalent to the 9.7% increase to the NLW.

There must be a joined-up approach on policy across government directorates and that all legislation should be sequenced, and longer lead-in times given so that the retail sector has a chance to understand, prepare and be ready to absorb it all.

Being small or micro-businesses in size, convenience stores do not have the financial strength to cope with the sudden increases in cashflow created by new legislation or regulations and they cannot pass costs onto customers as efficiently as larger retailers.

38 - To what extent have employers been affected by other major trends in the economy and labour market: for example, inflation, Brexit, the shift to homeworking or changes in the numbers of migrant workers in the UK?

As outlined in our 'National Living Wage Project – The Real Cost of Employment,' the situation is anything but stable. The impacts of supply chain disruption and energy markets instability, alongside the imposition of Brexit and many other factors, has created an extremely challenging trading environment for many convenience retailers.

For some people, particularly given the rising cost of living, working from home will be an attractive option and this will exacerbate the current labour shortages as will the fact that many of the over 50's who lost their job during the pandemic are choosing not to re-join the labour market at the present time. Convenience stores given the business model which they operate are being impacted, as they require staff to physically be in-store to work at till points, take receipt of deliveries, stock shelves, operate the in-store Post Office as well as to open and close the store.

40 - How has inflation and the cost of living factored into wage setting? What has been your experience of wage growth and inflation in the last year, and what are your views on forecasts for the next couple of years?

Convenience stores in Scotland provide local jobs for local people local people. For many, getting a position in a convenience store provides a route back into a paid job. Employment in the convenience sector offers flexibility to both the employee and the employer. This flexibility can help colleagues balance work with childcare commitments or having to care for other family members.

The staffing model also allows flexibility for convenience retailers where working hours may require to be adjusted over the year to reflect changing needs and demands on their business. **All these benefits risk being lost with the continual increases to the NLW.**

In the UK convenience sector, 93% of colleagues have a permanent employment contract and in terms of job security 72% feel very secure and 69% are satisfied with their job. In terms of length of employment in Scottish convenience stores, 27% of employees have been in post for between one to five years while a further 17% have held their job for between six to 10 years and 24% have held their job for more than 10 years (SLSR 2022).

As highlighted in our response in 2022, **rising staff costs also negatively impact of the ability of retailers to invest in their businesses and to keep them viable, profitable enterprises.** The costs of operating a convenience store are rising as has been highlighted earlier and if stores are to remain competitive and viable, wage costs are one of the key areas which need to be brought under control or retailers will struggle to significantly invest in their businesses going forward.

Given the tightening of the labour market in Scotland and the UK, it is becoming increasingly challenging for convenience stores to attract and retain staff.

There 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. This is a very real issue for convenience retailers as given the cost pressures which they are having to cope with they have little flexibility around what they can pay staff other than that set by NLW/NMW rates.

Given these labour market challenges and costs to business, retailers are having bridge the gap in other ways for example, our Scottish Local Shop Report 2022 highlights that 11% of Scottish shop owners work more than 70 hours a week while 28% take no holiday per year.

Scottish Grocers' Federation

June 2023