



ACS Submission: Low Pay Commission Consultation 2020

- Over 405,000 jobs are provided by the 46,000 convenience stores trading in Britain¹. The average store employs 9 people, three-quarters (72%) of whom work fewer than 30 hours per week².
- Convenience retailers are providing high quality jobs at the low-paid end of the labour market. These jobs are genuinely flexible, local and secure; 58% believe they will be working for their same employer in five years' time³.
- The impact of Covid-19 varies dependent on store trading location. Rural and neighbourhood stores have seen increased sales but sudden increases in business costs, while the pandemic has been particularly challenging for stores reliant on passing footfall.
- Convenience retailers have responded to the 2020 National Living Wage rate by; for independents, increasing the hours worked in the business (64%), taking lower profits from the business (56%) and reducing staffed working hours (48%)⁴. Business investment has declined by 29% over the past year⁵.

Recommendations

- The Low Pay Commission must exercise caution when setting the 2021 National Living Wage. Three-quarters (73%) of retailers believe that wage rates should be frozen and 84% agree wage rates should not increase any more than the rate of inflation⁶.
- The economic impact of Covid-19 requires the new National Living Wage target to be reviewed. The emergency brake should be used to extend the two-thirds of median earnings target beyond 2024.

For more information on this submission, please contact Steve Dowling, ACS Public Affairs Manager, via steve.dowling@acs.org.uk

¹ ACS Local Shop Report 2019

² ACS Local Shop Report 2019

³ ACS Colleague Survey 2019

⁴ ACS National Living Wage Survey 2020

⁵ ACS Investment Tracker

⁶ ACS National Living Wage Survey 2020

INTRODUCTION AND RESEARCH OVERVIEW

1. ACS (the Association of Convenience Stores) welcomes the opportunity to provide evidence to the Low Pay Commission on the future of statutory minimum wage rates. The convenience sector has a unique reach into local communities, providing access to key groceries and a range of services. ACS represents over 33,500 local shops and petrol forecourt sites including One Stop, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Londis and Costcutter. Further information about ACS is available at Annex A.
2. ACS conducts several primary research projects to inform its submission to the Low Pay Commission (LPC), including the annual National Living Wage (NLW) Survey. This year's NLW Survey has been impacted by Covid-19 as we decided to shorten the survey due to pressures on retailers' time. The online survey was conducted between 23rd May and 6th April and collected information from 26 businesses representing 2448 stores employing 33,036 store colleagues. The sample is more heavily weighted towards multiple retailers than previous years due to the impact of Covid-19 on time available for independent retailers, but still representative of the sector as a whole.
3. This submission also draws directly on the views of colleagues working in the sector. The ACS Colleague Survey 2020 was available for colleagues to complete confidentially and anonymously online between 21st January and 24th February. ACS' submission also draws on the following research:
 - ACS Local Shop Report 2019: Survey based on a random sample of 2420 independent retailers combined with data from ACS multiple members and weighted to represent the market. Secondary data sources are also used in the report.
 - ACS Covid-19 Impact Survey: An online survey conducted between 13th April and 1st May 2020. Sample size of 87 businesses representing 4,896 stores and 64,504 colleagues.
 - ACS Voice of Local Shops Survey (VOLS): Quarterly telephone survey of a random sample of 1,210 symbol and independent retailers.
 - ACS/Populus Grocery Shopping Survey: An online consumer poll of 1,015 UK adults from 7th May 2020.
4. ACS is organising a focus group to allow the Low Pay Commission to gather case study evidence direct from convenience retailers about the impact of the National Living Wage to inform its remit. The minutes of this meeting, taking place on 18th June, will be signed-off by the Low Pay Commissioner chairing the meeting and submitted as additional evidence.

Employment in the Convenience Sector

5. There are over 46,000 convenience stores in mainland UK, providing 405,000 jobs⁷. Employment in the sector is predominantly part-time with three quarters (72%) working fewer than 30 hours per week⁸. Two-thirds (72%) of colleagues are female and the sector employs people from a range of backgrounds, with 26% aged under 25 and 14% over 60 years old⁹. The jobs provided by convenience stores, although predominantly at the lower end of the labour market, are based on

⁷ ACS Local Shop Report 2019

⁸ ACS Local Shop Report 2019

⁹ ACS Local Shop Report 2019

formal contracts and valued by employees. 88% of working hours are contracted and there is very limited use of zero-hour contracts across the sector¹⁰.

6. Employment in the convenience sector provides genuine flexibility for both employer and employee. Convenience retailers provide flexible working hours to fit around staff commitments, with 73% having external commitments which affect the working hours they can undertake, such as childcare (46%), caring for other family members (24%) and studying (7%)¹¹. This staffing model also allows retailers to offer additional hours to manage peaks and troughs in demand across the year and manage unscheduled staff absences in a labour-intensive but small working environment. In the past three months, 22% of colleagues have been unable to attend a scheduled shift with 63% of instances giving less than 48 hours' notice¹².
7. The convenience sector also provides local employment opportunities. Convenience stores trade in all types of community, in rural (37%), suburban (26%) and urban (37%) locations¹³. The sector trades close to where people live, meaning convenience stores are located beyond high streets and larger shopping parades (21%), to neighbourhood parades (42%) and as isolated stores in village locations (38%)¹⁴. As a result, 53% of colleagues walk to work, with an average travel cost and time to get to and from work of £1.81 and 14 minutes¹⁵. For most colleagues, the close location of their shop and low cost of getting to work supports them to manage their external commitments and minimise financial outgoings associated with work.
8. The jobs provided by convenience retailers are secure. Employee turnover is low at 24%¹⁶ and one-in-three (35%) colleagues have been working for their current employer for more than five years¹⁷. The vast majority (93%) of staff are on permanent contracts and 81% of entry-level employees feel valued by their employer¹⁸. 58% of colleagues believe they will be working for their same employer in five years' time¹⁹.
9. Overall, convenience retailers supply good quality employment opportunities at the lower paid end of the labour market. 72% of colleagues state they feel supported by their immediate manager and 69% perceive the work they do is important for the community²⁰. All these are indicators of good quality work – supportive working relationships, a sense of purpose and clear barriers between work and personal life.

ECONOMIC OVERVIEW

Impact of Covid-19

10. The impact of Covid-19 on local shops operations has been significant. Many rural and neighbourhood stores have seen uplifts in sales, but the outbreak is proving particularly challenging for stores in city centres, high streets and transport hubs more reliant on passing trade. 66% of stores have indicated an increase in sales, but they have also seen increased wholesale costs due

¹⁰ ACS Colleague Survey 2020

¹¹ ACS Colleague Survey 2019

¹² ACS Colleague Survey 2020

¹³ ACS Local Shop Report 2019

¹⁴ ACS Local Shop Report 2019

¹⁵ ACS Colleague Survey 2019

¹⁶ Defined as: length of employment – less than one year. Source: ACS Local Shop Report 2019

¹⁷ ACS Local Shop Report 2019

¹⁸ ACS Colleague Survey 2020

¹⁹ ACS Colleague Survey 2019

²⁰ ACS Colleague Survey 2020

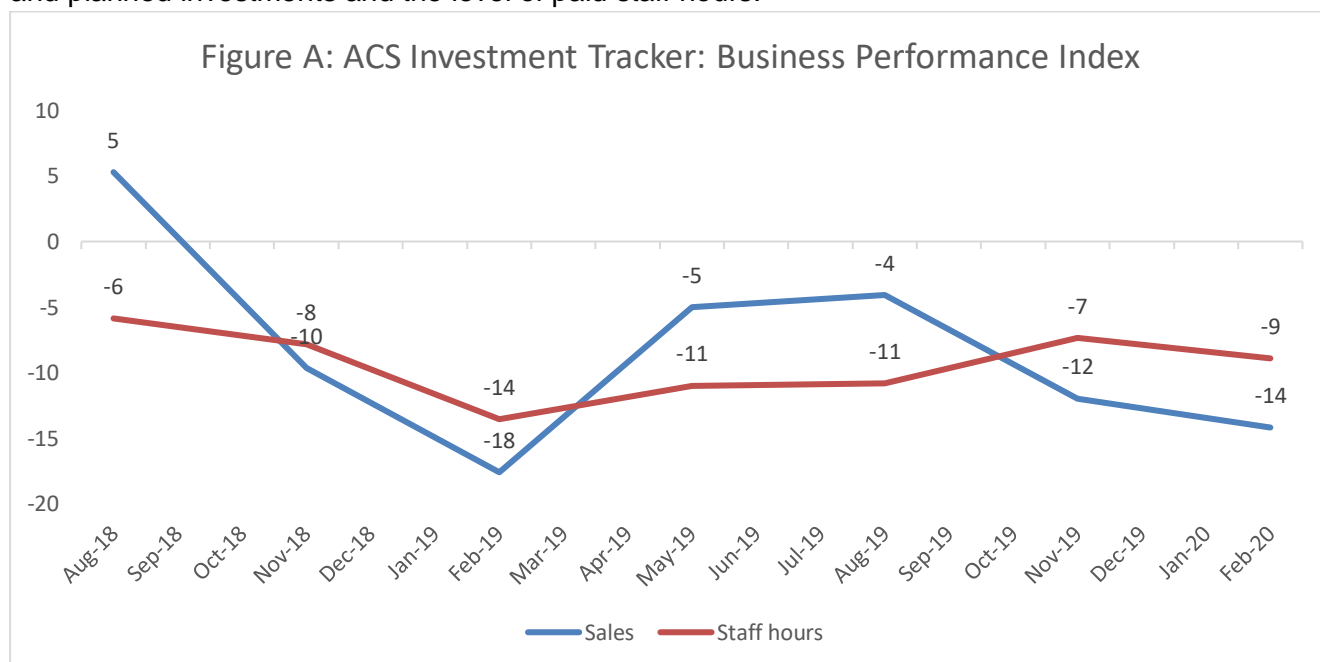
to changing product availability and significantly higher employment costs caused by higher absenteeism due to public health advice. To manage higher absenteeism many retailers have increased temporary recruitment to meet demand²¹. However, retailers have been unable to pass on these increased costs to customers; food price inflation was negative between March and April at -0.1% and fuel prices dropped by 8.7% over the same period²².

11. We have also seen a change in consumer shopping behaviours, resulting in fewer shopping trips with higher basket spends. Basket spends have increased for 77% of convenience stores while footfall has declined for 57%²³. It is possible these changes in shopping behaviour may sustain while social distancing restrictions remain in place for the foreseeable future. Populus polling for ACS shows that 49% of consumers are either hesitant or will not use the high street post-lockdown²⁴. Further details on the impact of Covid-19 on the convenience sector are available via ACS' Covid-19 Impact Survey.

Convenience Sector

12. Convenience retailers are operating in a competitive retail marketplace with tightening margins and rises in business costs. Wages costs are the highest outgoing for convenience retailers and there are multiple rising non-wage employment costs that retailers are contending with, including pensions, statutory sick pay, statutory holiday pay and National Insurance Contributions. Other costs such as insurance premiums are often calculated based on wage bill, increasing costs for retailers elsewhere in the business.

13. Figure A shows how retailers have reported sales and staff hours for the past two years. Retailers have consistently reported a net reduction in working hours as employment and other business costs increase. Property costs are the next most expensive business area for retailers and business rates bills continue to increase alongside the multiplier. Convenience retailers are operating in a context of shrinking margins and above-inflation increases in all key business costs, impacting profit and planned investments and the level of paid staff hours.



²¹ ACS Covid-19 Impact Survey: May 2020

²² <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/april2020>

²³ ACS Covid-19 Impact Survey: May 2020

²⁴ ACS/Populus Grocery Shopping Survey: 7th May 2020

14. Looking ahead, retailers are concerned about the scheduled end of the transition period for the UK’s withdrawal from the European Union in December for the potential impacts on supply chains and consumer confidence. ACS is calling for the Government to reach an agreed exit deal from the EU.

THE NATIONAL LIVING WAGE

Impact Since 2016

15. ACS’ evidence to the Low Pay Commission since 2016 has shown that many retailers have responded to increases in the National Living Wage by reducing operating costs wherever possible. The table below compares the top three responses from retailers since 2016 to NLW increases. For retailers that can they have worked more hours in their business themselves, reduced paid staff hours/staffing levels and taken less profit from the business.

16. However, there are limitations to retailers’ capacity to reduce staffing levels before they start to sacrifice service, hence a shift towards retailers being able to take less profits from the business. The competitive nature of the grocery retail market means most retailers are reluctant to pass on increased employment costs to consumers through increasing prices.

Table A: Most Common Retailer Responses to NLW Increases

	2016	2017	2018	2019	2020
1.	Reduced working hours (74%)	Reduced working hours (78%)	Reduced working hours (75%)	Reduced working hours (72%)	Increased retailer working hours (64%)
2.	Reduced staff numbers (67%)	Take less profits (78%)	Increased retailer working hours (60%)	Take less profits (64%)	Take less profits (56%)
3.	Increased retailer working hours (65%)	Increased retailer working hours (65%)	Take less profits (54%)	Increased retailer working hours (52%)	Reduced working hours (48%)

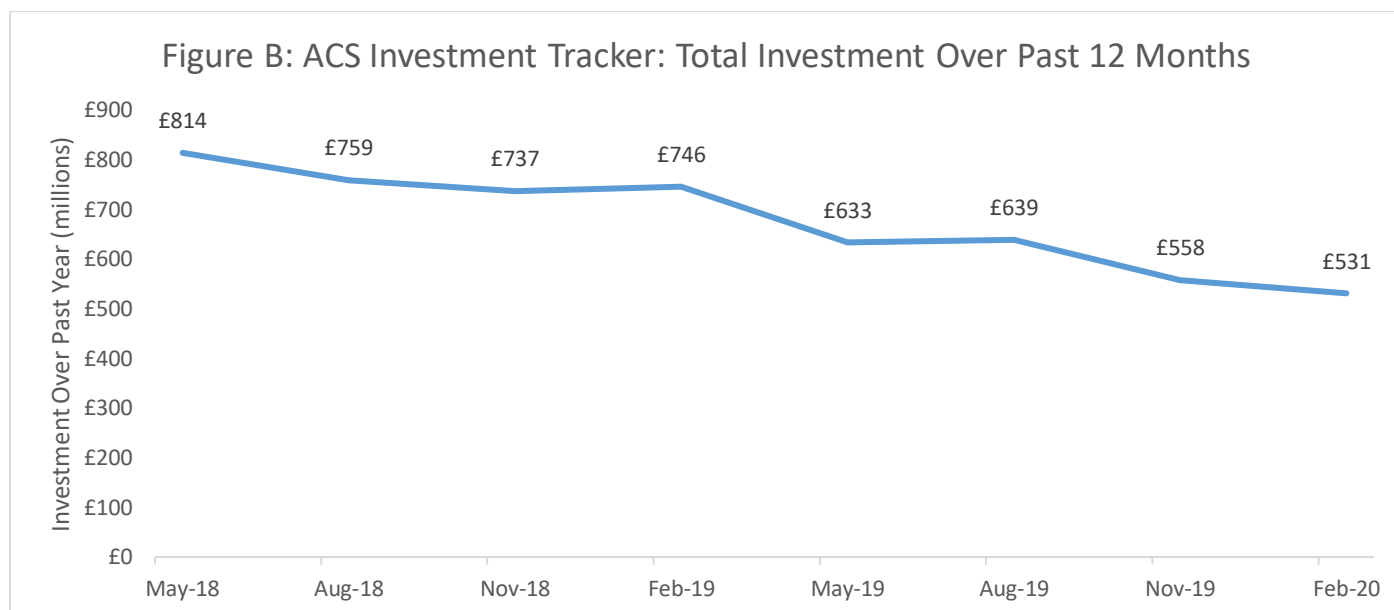
17. One of the Government’s ambitions for increasing the NLW has been to drive greater productivity across the economy. In the day-to-day operations of any business, organisations seek to optimise efficiency, but the means of achieving productivity gains and the relative returns vary across sectors. Convenience retailers cannot achieve sufficient productivity gains to match the pace of increases in operating costs, especially employment costs.

18. Convenience stores’ operating profile is naturally lean, with small format stores operating at low staffing volumes covering customer service, shop floor management and store operations. Investing in technology, such as self-scan tills or electronic shelf edge labels, is one option for retailers, but investment costs are high and lead times for return on investment are long. Retailers are diversifying into new product categories, such as food-to-go, but this often comes with high operating costs and can be high-risk where there is no clear demand for the offer.

19. Therefore, driving greater productivity for convenience retailers is best delivered by reducing overall staffing levels or restructuring roles. Since 2016 we have seen squeezed pay differentials resulting in many retailers removing deputy manager or supervisor roles from stores and passing on more responsibility to stores colleagues. Our evidence also shows that working hours per-store have

been reduced with an uptick in part-time employment from 63% in 2015 to 72% in 2019²⁵. Non-wage incentives such as staff discounts, salary sacrifice schemes and benefit-led employee engagement platforms have also been removed to fund the headline National Living Wage rate, making it more difficult for convenience retailers to differentiate their employment offer.

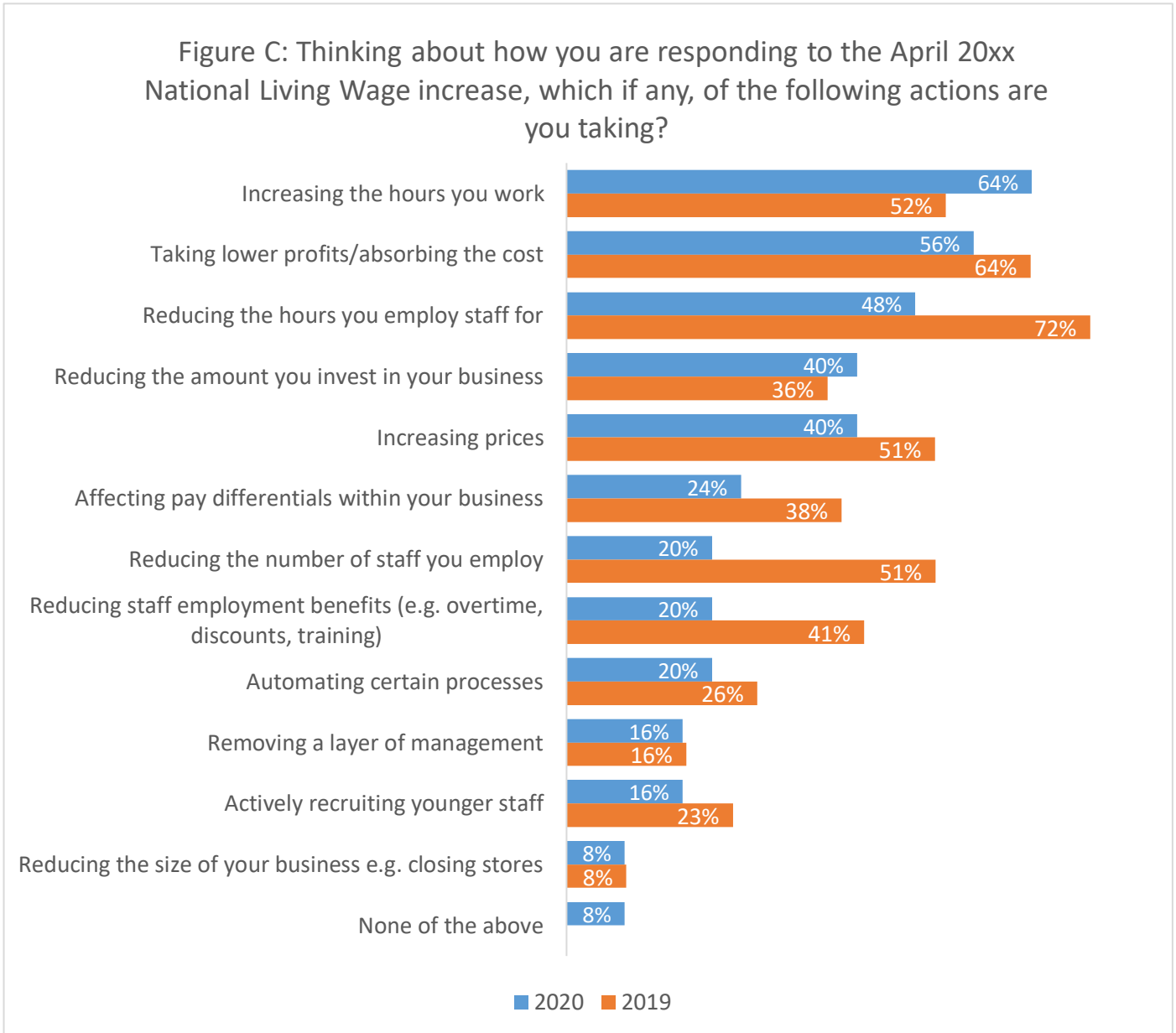
20. Since 2016 we have also seen a correlation between increased wage rates and reduced investment levels by retailers. Figure B shows how investment has declined since the National Living Wage was introduced. There are multiple factors for reductions in store investments, but we know that increased employment costs are one such factor, especially if a retailer is considering opening more sites.



²⁵ ACS Local Shop Report 2015 and 2019. 'Part-time employment' defined as up to 30 working hours per week.

2020 Impact

21. Figure C demonstrates how at an aggregate level, retailers have taken the same actions in response to the 2020 increase in wage rates as they did in 2019. The top three responses remain unchanged: increasing hours worked in the business (for independent retailers), taking lower profits and reducing working hours in the business.



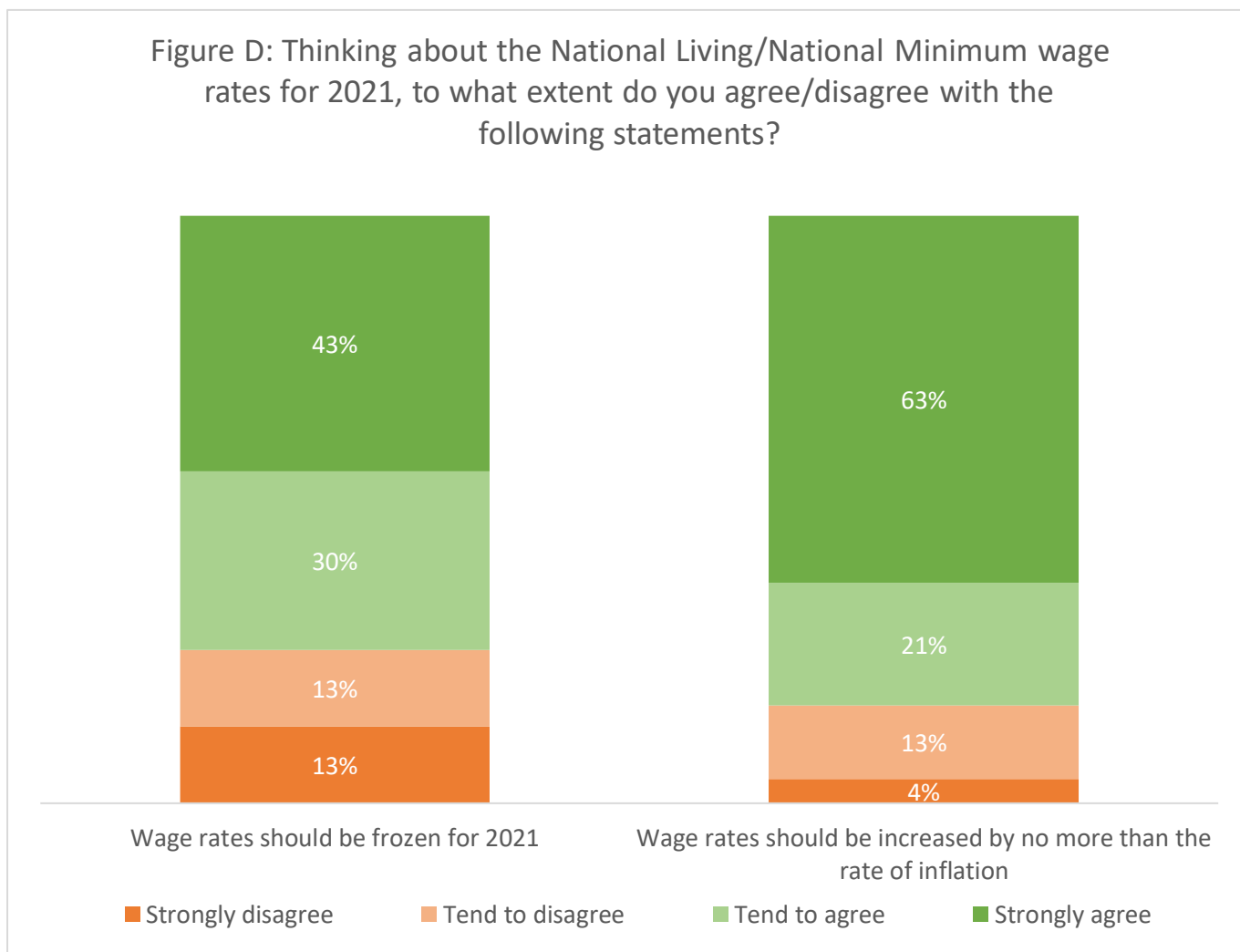
22. Independent retailers working more hours in the business supports a low-cost business model to survive, but this can lead to unsustainable working hours for retailers; 19% already work more than 70 hours per week and 17% take no holiday per year²⁶. Some other responses have marginally declined from retailers, specifically reducing working hours in the business, increasing prices, affecting pay differentials and reducing the number of staff employed. These results could also be due to stores already reaching minimum staffing levels or the flattest possible staffing structures.

²⁶ ACS Local Shop Report 2019

23. The 2020 survey results are also likely to be impacted by the increase in trade caused by Covid-19 for some stores. For example, retailers have had to hire temporary staff to meet higher Covid-19 demand and staff absenteeism.

Setting the 2021 Rate

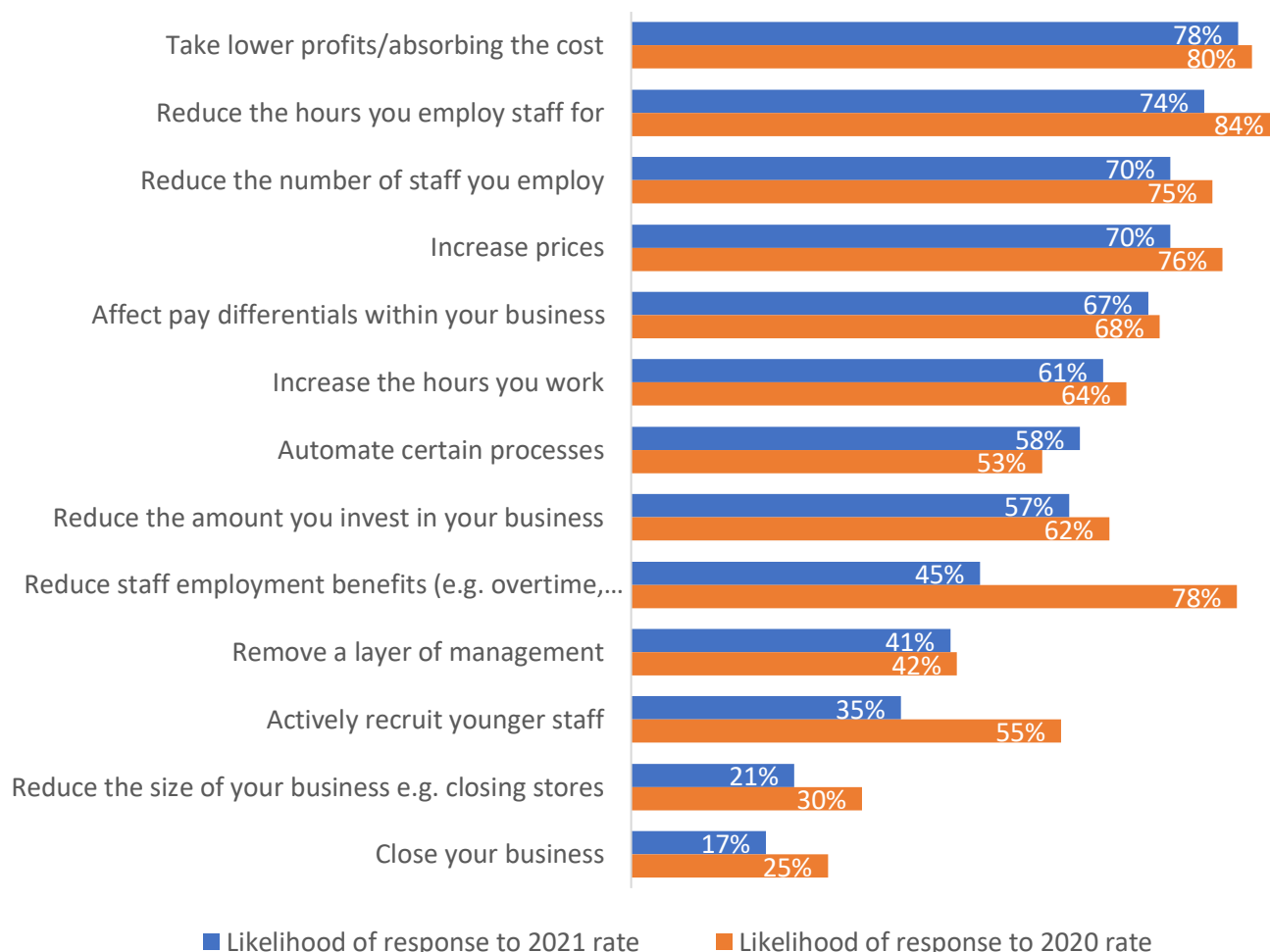
24. Three-quarters (73%) of retailers responded to ACS' NLW survey suggesting that wage rates should be frozen and 84% agree wage rates should not increase any more than the rate of inflation²⁷. ACS therefore recommends that the Low Pay Commission exercise caution when setting the NLW rate for 2021/22. This is especially important given the prevailing economic outlook and business impact of NLW increases since 2016.



25. Figure E shows how retailers would respond to a £9.21 National Living Wage, if introduced in 2021. The data predominantly suggests the same mitigating tactics would be used by retailers as this year; taking lower profits, reducing staffing numbers and reducing staffing hours. There is one significant difference in the 2021 response – fewer retailers seeking to reduce staff benefits – which may be explained by Covid-19. We are aware that many retailers are offering bonuses and introducing other temporary benefits to reward colleagues for their extraordinary work during the outbreak.

²⁷ ACS National Living Wage Survey 2020

Figure E: What is the likelihood of the following impacts if the on-target rate is introduced?



The New Remit

26. The economic impact of Covid-19 has been severe and is widely forecast to negatively impact the labour market throughout 2020 and beyond. The Office for Budget Responsibility has predicted the unemployment rate may rise to 10% this year and low-paid workers are more likely to be at risk of job loss²⁸. The remit provided to the Low Pay Commission includes recommending the Government reviews its target or timeframe for the National Living Wage to reach two-thirds of median earnings by 2024, where the economic evidence warrants it.

27. All the economic evidence on Covid-19 indicates negative business and labour market performance. The case for ‘pulling the emergency brake’ and extending the two thirds median earnings target beyond 2024 is therefore worthy of consideration. 70% of retailers do not think a £10.69 rate in 2024 is sustainable²⁹. Maintaining the 2024 target but with a lower increase in 2021 would not be sufficient as this would require steep increases in minimum rates thereafter.

²⁸ OBR, Coronavirus reference scenario, 17 April 2020

²⁹ ACS National Living Wage Survey 2020

28. We recognise the indicative path provided for reducing the National Living Wage age threshold to 21 and above, with an extension to those aged 23 and above from 2021. The actual rate is far more important for convenience retailers than eligibility as entry-level shop floor colleagues are typically paid at the same rate due to the dynamics of a small workforce with employees in the same job roles.

OTHER STATUTORY WAGE RATES

29. We support the existing remit for all other statutory minimum wage rates to be set 'as high as possible without damaging employment prospects'. This should include a rate for 21- and 22-year olds, if introduced. The setting of these rates for 2021 should also recognise the prevailing economic circumstances and potential impact on younger workers, by setting rates which support the employment of younger workers by convenience retailers.

COMPLIANCE AND ENFORCEMENT

Compliance Issues

30. The updated policy document from the Department for Business, Energy and Industrial Strategy will help improve compliance and prevent misguided penalties on employers³⁰. The Secretary of State Direction contained in that policy document should prevent financial penalties for retailers for letting out flats above shops to employees, although risks of accidental and technical non-compliance remain where Time Off in Lieu is practiced amongst workers with a small number of working hours.

31. Other measures announced by Government could support compliance if implemented and promoted effectively. Specifically, thematic guides on specific compliance issues such as pay deductions and uniform policy, the new employer helpline on salary sacrifice schemes and support for new, small businesses on HMRC visits. ACS has submitted evidence on compliance and is willing to help communicate updates and gain feedback from members.

Labour Market Enforcement Strategy

32. We support the move towards a single enforcement body (SEB) for labour market regulations. A SEB could be a powerful tool to improve understanding and compliance, dependent on how it is established to practically function. The SEB should form a clear, single Government contact point for retailers of all sizes and work with trade bodies to consult on strategy and effectively communicate resources to business. A priority for any new body must be to renew and embed a partnership approach with employers, a sizeable proportion of whom perceive they have been unfairly penalised for technical breaches in recent years.

33. Moving towards a SEB will provide an opportunity to revamp the naming and shaming scheme to produce one list across all labour market regulations which distinguishes between the nature of breaches. The use of 'naming and shaming' as a deterrent should only apply for higher harm breaches to become proportionate and reduce the size of a named list that could otherwise be far larger within a single body with a wider enforcement remit and therefore carry less reputational risk for employers. Deterrence must be focused on unscrupulous employers who are knowingly or seriously failing to comply with the regulations.

³⁰ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/864801/national-minimum-wage-enforcement-policy-february-2020.pdf

34. Proposals to introduce joint responsibility for labour market compliance across supply chains require further and detailed consultation. Introducing joint responsibility would be hugely burdensome on convenience retailers and could unfairly penalise retailers for labour market breaches occurring in businesses with which they have no direct relationship. Joint responsibility would require retailers to audit the HR processes of their entire supply chain, despite complex supply chains within the sector, limited auditing experience and minimal time and resource to complete such activities.

For more information on this submission, please contact Steve Dowling, ACS Public Affairs Manager, via steve.dowling@acs.org.uk

Annex A – ACS

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 46,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.



WHO WE REPRESENT

INDEPENDENT RETAILERS



ACS represents over 19,000 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

SYMBOL GROUPS AND FRANCHISES



ACS represents over 14,000 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents over 12,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR



In 2018, the total value of sales in the convenience sector was £39.1bn.

The average spend in a typical convenience store transaction is £6.50.



There are 46,262 convenience stores in mainland UK. 72% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 365,000 people.

24% of independent/symbol stores employ family members only.



24% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

70% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

81% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2017 and May 2018, the convenience sector invested over £814m in stores.

The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1,200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of over 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 7,669 stores. The Local Shop Report also draws on data from HIM, IGD, Nielsen and William Reed.

BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit www.acs.org.uk