ACS Submission: Low Pay Commission 2017

<u>Executive Summary</u>

- There are over 50,000 convenience stores in Britain, providing 390,000 jobs and £5bn GVA to the economy.

- Work in the sector remains valued and secure, with 79% of colleagues either satisfied or very satisfied with their current employment and 68% expecting to remain with their current employer in five years' time in a similar or more senior role.

- The costs of doing business in the convenience sector have increased markedly in the last year; from the business rates revaluation, apprenticeship levy and all stores surpassing their auto-enrolment staging dates.

- The £7.50 National Living Wage was an increase of 4.2% on the £7.20 rate. Retailers have responded to this increase by reducing employees working hours, reducing business profitability, and for independent retailers, taking on more hours themselves.

- ACS' Optimism Index for the future of staff hours is now at its lowest level since the National Living Wage policy was unveiled at Budget 2015.

- We welcome that the Taylor Review will look at changes in employment practices and the emergence of the 'gig economy', which some businesses are using to avoid employment regulations and the National Living Wage to gain a competitive advantage.

- Retailers remain reluctant to raise prices in a competitive grocery market, but imported food inflation and the potential impact of Britain's exit from the EU mean retailers may have to increases product prices in future to maintain their profitability.

- There is a divergence in views between colleague and retailer about the impact of the National Living Wage. Colleagues perceive the National Living Wage will result in increased product costs but will not impact on working hours, while retailers state they are trying to maintain product costs but are responding by cutting staff hours.

- The National Living Wage has not delivered positive associated benefits to the convenience sector. 87% of retailers report they have not experienced reduced staff turnover, reduced absenteeism or increased productivity or worker effort since the National Living Wage was introduced.

- ACS recommends that the Low Pay Commission approaches setting the National Living Wage rate for 2018/19 with caution. 75% of convenience retailers indicate that they would like to see a freeze in the National Living Wage rate for next year.

- ACS recommends that the Low Pay Commission sets future National Living Wage rates on the basis of increasing the rate as high as possible without damaging employment prospects in the economy.

Introduction

ACS (the Association of Convenience Stores) welcomes the opportunity to provide evidence to the Low Pay Commission. ACS represents over 33,500 local shops across Britain including Spar UK, One Stop, McColls Retail, Nisa Retail, Costcutter Supermarkets and thousands of independent retailers. We support the remit of the Low Pay Commission to recommend, monitor and evaluate minimum wage rates based on thorough economic deliberation and believe all statutory wage rates should be set at the highest level possible without damaging the employment prospects of low-paid workers.

ACS has used a range of data sources to inform this submission. This includes ACS' annual Local Shop Report, which provides a comprehensive overview of the sector and data on employment, plus information the retailers running stores, sales, services offered and trends in the market[1]. ACS also conducts quarterly surveys of a changing sample of 1,210 symbol and independent retailers through its Voice of Local Shops survey (VOLS), while ACS' quarterly Investment Tracker provides information on the investments being made by retailers across the sector and their investment plans for the future.

ACS has completed a bespoke survey of members to inform the Low Pay Commission's call for evidence. The ACS National Living Wage Survey 2017 has collected information from 62 businesses representing a total of 4,742 stores, employing 53,613 staff. Data gathered from the survey has been weighted to be nationally representative of the UK convenience sector. The full survey design is available at Appendix A. The second edition of ACS' Colleague Survey 2017 has also informed this submission to provide the perspective of employees within the sector on their employment and opinions on minimum wage rates. Further results from the survey are available at Appendix B.

ACS organised a roundtable meeting of convenience retailers to discuss the impact of wage rates on their businesses. Retailer delegates included a mix of independent and multiple retailers from across the country. Low Pay Commissioners and members of the Low Pay Commission executive attended the meeting and questioned the group. The roundtable meeting was independently chaired by the Resolution Foundation and ACS remained observers. The minutes of the meeting have been finalised and approved by the independent Chair and are available in full at Appendix C.

Economic Outlook

The convenience sector is comprised of over 50,000 stores, employing 390,000 people in communities across the country. 60% of colleagues in the convenience sector are female and 70% of employees work less than 30 hours per week[2]. Comparing 2015 to 2016 there has been a 4% drop in the total level of employment in the convenience sector from 407,000 to 390,000[3], with 81% of retailers who have reduced their staff numbers doing so as a direct response to rising employment costs[4].

Convenience stores are operating in a trading environment characterised by rising operating costs and newfound food inflation eroding margins for retailers. However, industry projections forecast that the convenience sector will grow by 17.7% between 2017 and 2022. This growth is significantly below forecasts for online retailers (53.8%) and discount retailers (49.8%), but ahead of supermarkets (5.9%) and the overall retail sector average (15.4%)[5].

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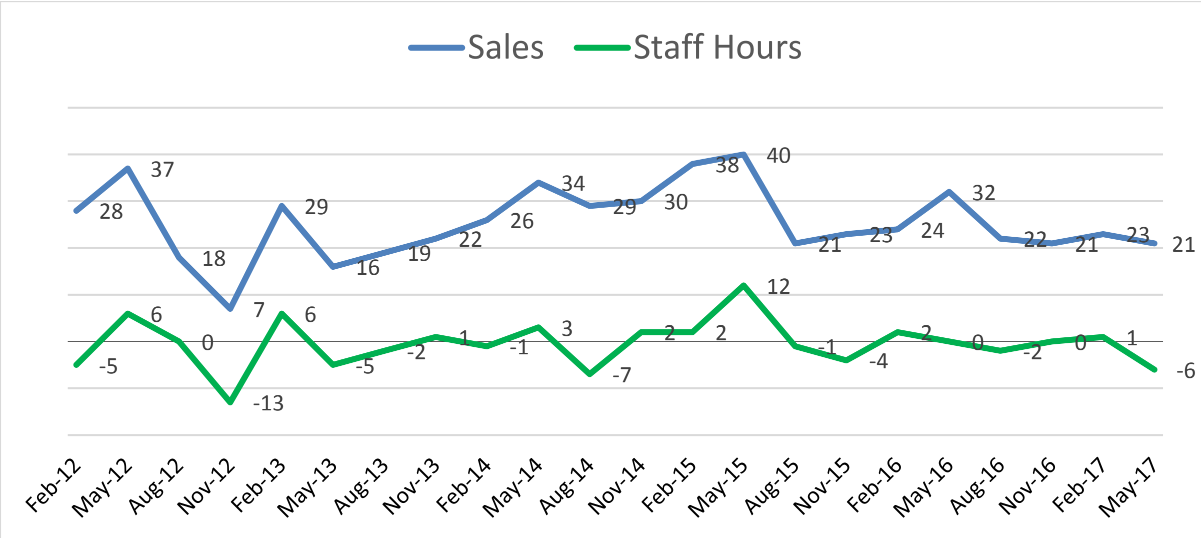
[1] The next edition of the Local Shop Report will be launched in September. ACS will send the LPC a copy of the Local Shop Report 2017 on its publication date.
[2] ACS Local Shop Report 2016
[3] Comparing the ACS Local Shop Report 2015 and 2016
[4] ACS National Living Wage Survey 2017
[5] IGD. UK food and grocery forecast to grow by 15% by 2022 6 June 2017

Growth in the convenience sector has been driven by numerous social trends, such as the increase in single person households and increase in atypical working patterns. Consumers increasingly turn to convenience stores to shop little, often and locally, with 57% choosing to shop in convenience stores to complete their shopping mission quickly[6]. Despite these positive consumer trends, Figure A suggests there has been a decline in optimism from retailers about upcoming sales performance and staffing in their businesses.

Figure A: ACS Voice of Local Shops Survey: Optimism Index



The lack of retailer optimism about paid staff hours is driven by increased employment costs, especially the National Living Wage, shown by the overall decline in confidence about staff hours since the announcement of the National Living Wage in 2015. However, other changes in employment policy and increased property costs have also had a bearing on retailer optimism levels as well as wider consumer confidence.

Retailer optimism has an impact on investment in the sector. ACS' Investment Tracker shows that convenience retailers have invested a total of £858 million in their businesses over the last year. Retailers invested £193 million in the last quarter, which is down 7% year-on-year[7]. Typical items of investment for retailers include cost saving measures such as installing energy efficient refrigeration (32%) and LED lighting (30%)[8]. Other investments are often made to respond to changing consumer demands. For example, higher demands for fresh produce have encouraged retailers to invest in refrigeration, while growth in the 'food to go' category has preceded unprecedented investment in food service equipment such as customer-operated coffee machines.

Figure B provides a breakdown of how this investment has been made by different types of retailers in the sector, showing there has been consistently higher levels of investment from multiple retailers as they diversify their offer to consumers and expand their property portfolio in the sector.

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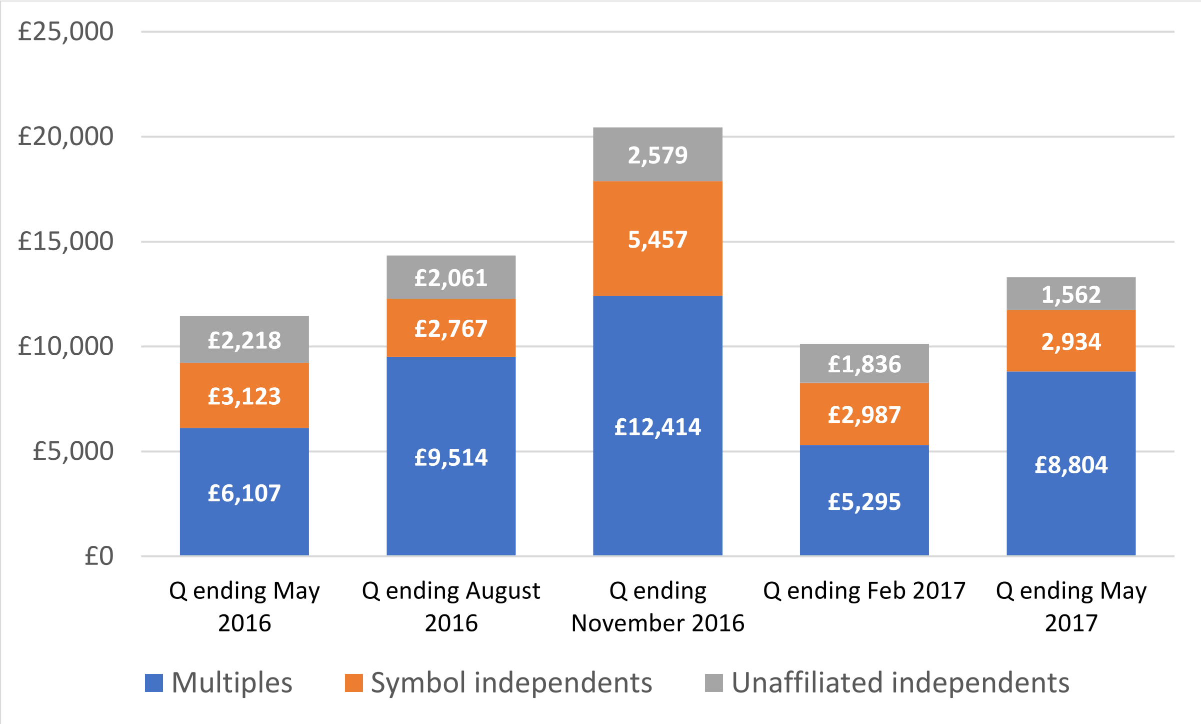
[6] ibid
[7] ACS Investment Tracker: May 2017
[8] ibid

Figure B: ACS Investment Tracker: Average Quarterly Investment by Store Type



Costs and Issues Faced by the Sector

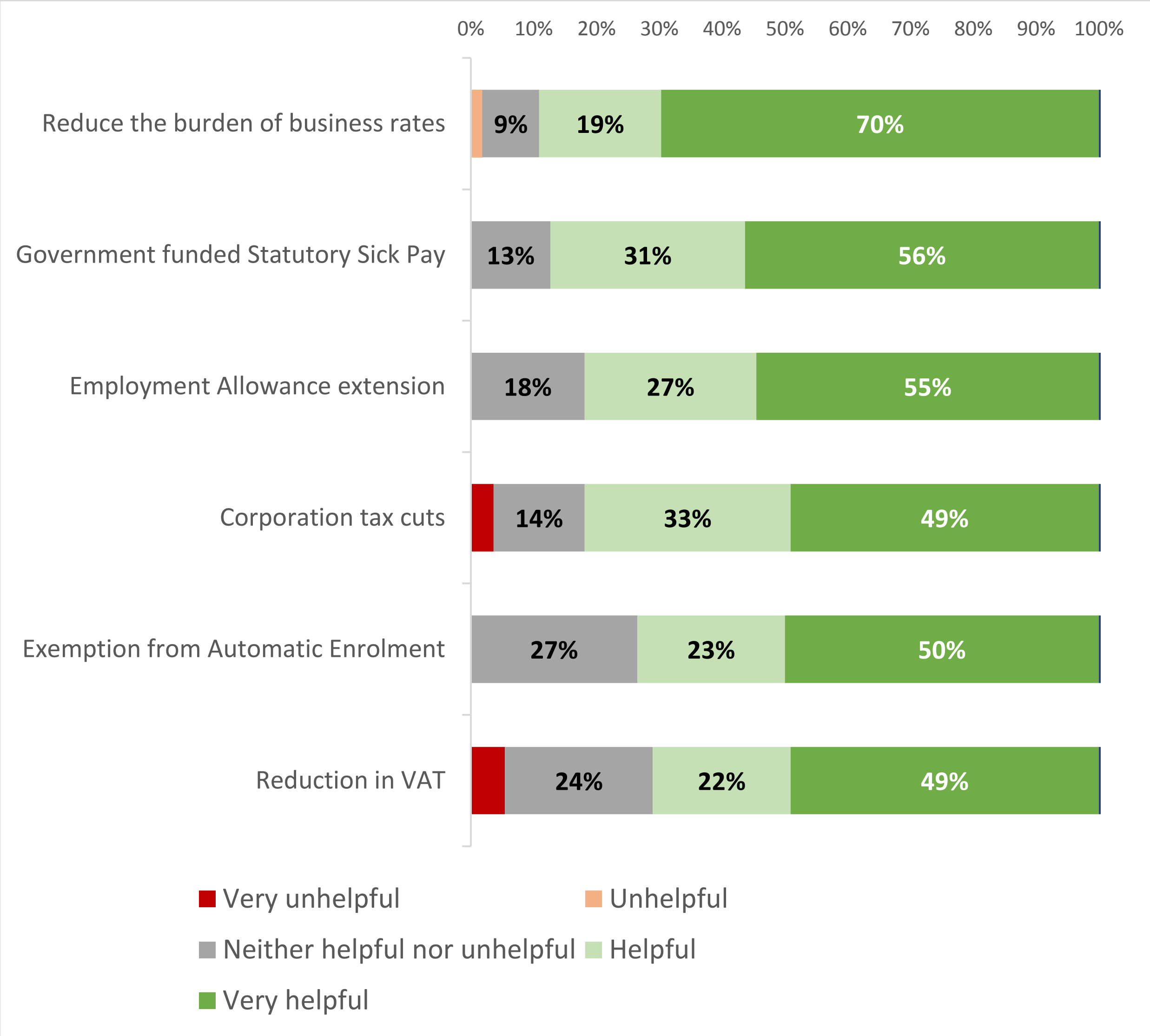
Numerous regulatory interventions have increased the cost base for convenience retail businesses over the last year, impacting investment and recruitment decisions. Although the National Living Wage is the most important employment policy for the sector, larger retailers are now paying the Apprenticeship Levy and all stores have now surpassed their staging date for auto-enrolment pensions and are making employer contributions into employee pensions. We urge the Low Pay Commission to consider the collective cost of employment to retailers in addition to wage rates increases.

In addition to employment costs, property costs have also risen over the last year, with one-in-three convenience stores now having increased rateable values following the delayed business rates revaluation[9]. The revaluation has led to increased bills particularly for large format convenience stores in prime locations and forecourt retailers that are punished by a turnover-based rating methodology. Despite offering piecemeal concessions, the Government has failed to address some of the largest increases in rates bills for the sector. For more information on the impact of business rates on the sector, please see Appendix D.

As part of ACS' National Living Wage Survey we asked retailers to indicate what they would most like the Government to do to support their business apart from reducing the cost of the National Living Wage. Figure C shows the priority areas for retailers include action on business rates, reinstating central funding for Statutory Sick Pay and extending the employment allowance to cut the costs of employment.

[9] ACS Voice of Local Shops Survey: November 2016

Figure C: ACS National Living Wage Survey 2017: How helpful would it be if the Government took the following actions to further mitigate costs of the National Living Wage?



Statutory Sick Pay

Statutory Sick Pay is currently paid at £88.45 per week, the cost of which must be met in full by employers of all sizes. According to ACS' National Living Wage Survey, Statutory Sick Pay costs on average £673.95 per convenience store or £33.7 million across the sector, without accounting for the additional finance a retailer must find to fund another wage to cover employee absence[10]. For smaller businesses, full liability for Statutory Sick Pay can markedly increase expenditure on staff. ACS is calling on the Government to review the Statutory Sick Pay system to encourage earlier conversations between employers and employees about returning to work.

Apprenticeship Levy

The new apprenticeships system means larger convenience retailers are now liable to make monthly apprenticeship levy payments equivalent to 0.5% PAYE. Although this fund may be reinvested by retailers into apprenticeship training, low demand for retail apprenticeships

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[10] ACS National Living Wage Survey 2017: "In total, over the last 12 months how much have you paid your staff in statutory sick pay?"

means retailers are struggling to recoup the costs of the levy and only 5% of independent and symbol group retailers currently employ an apprentice[11].

Low demand for retail apprenticeships in the sector is driven by the working hours and commitments of staff. 70% of colleagues work less than 30 hours per week, while 72% of colleagues have caring, voluntary or study commitments outside of work which affect the number of working hours they can undertake[12]. As a result, 84% of store staff are not interested in becoming an apprentice. Many retailers are choosing to use Apprenticeship Levy funds for training mid-level employees working in head office functions[13].

Auto-Enrolment

All convenience stores have now passed their staging date for auto-enrolment, meaning they are responsible for making employer contributions to workplace pensions. Tracking these responsibilities is an administrative difficulty for many retailers, due to the tendency for staff working hours to vary on a weekly basis, which impacts their contribution entitlements. This difficulty is enhanced for smaller retailers that do not have centralised administrative functions.

The costs of auto-enrolment will rise as a direct result of the direction of the National Living Wage. Based on the 2017/18 National Living Wage rate of £7.50 per hour, a convenience store employee would need to work 15 hours per week to reach the lower level of qualifying earnings (£5,876), and 25 hours per week to be automatically-enrolled (£10,000). ACS data shows that 63% of colleagues work 16 hours or more per week, meaning that most convenience store staff are entitled to a workplace pension[14].

ACS' National Living Wage Survey has found that opt-out rates for the sector are relatively low at 7%[15]. This means retailers are paying contributions for a larger number of staff than anticipated. The costs of auto-enrolment will increase sharply for retailers as minimum employer contributions double in 2018 and then increase further in 2019.

Taylor Review

The Taylor Review is exploring the motivations behind different forms of work and employment practices in response to the rise of the 'gig economy'. The 'gig economy' is not commonly used as a basis for work in the convenience sector and 60% of retailers do not use zero-hour contracts in the business, with employment in the sector overwhelmingly being part-time, contracted work with employee status[16]. However, convenience stores can be in competition with 'gig economy' operators, with many offering alternative mealtime solutions for potential customers. Many businesses perceive that 'gig economy' business have a competitive advantage by not having to pay the National Living Wage through staffing by self-employed workers. We are therefore calling for the Taylor Review to provide clarity and a clear legal framework on employment status and associated rights, including the National Living Wage.

Competition from the 'gig economy' represents another challenge to the convenience sector and further highlights the increasing impact of rising employment costs on convenience retailers' businesses. In 2013, 55% of independent retailers declared they earnt less than the National Minimum Wage based on the hours they work in the business[17]. Although this statistic is four years old and not a direct representation of the entire sector, it shows how

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[11] ACS Voice of Local Shops Survey: February 2016
[12] ACS Local Shop Report 2016
[13] ACS Colleague Survey 2017
[14] ACS Local Shop Report 2017
[15] ACS National Living Wage Survey 2017
[16] ACS Voice of Local Shops Survey: May 2017
[17] ACS Voice of Local Shops Survey: May 2013

rising employment costs with the National Living Wage can undermine the take home pay of retailers and acts as a disincentive to enterprise in the sector.

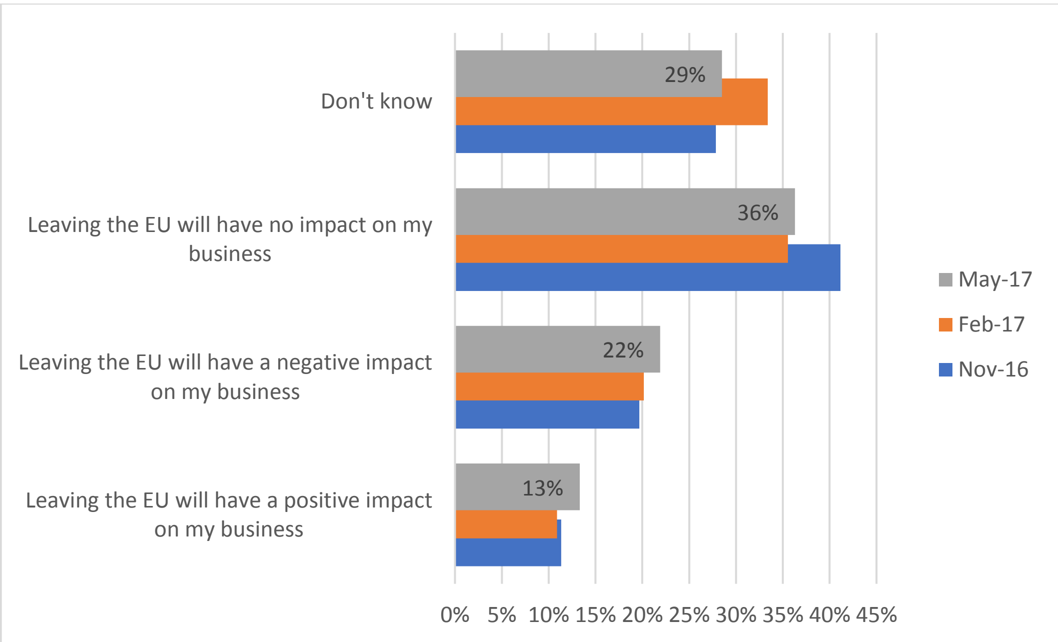
Brexit

The impact of the UK's exit from the EU is causing concern across the business community, including the convenience sector. However, only 1.4% of colleagues in the convenience sector are non-UK EU nationals. Retailers typically recruit staff from within their local trading communities, meaning they are not reliant on labour from the EU[18]. This means changes to the immigration system or the availability of labour will have limited impact on the convenience sector.

The real impact of Brexit on the sector will be through changes to food tariffs, food inflation and the fluctuation in the value of sterling, which all influence in-store prices for consumers. However, larger retailers are better able to negotiate the prices they pay for goods[19] relative to smaller retailers, meaning price increases may be more evident in the convenience sector.

ACS tracks retailer opinion on the likely impact of exit from the EU quarterly through ACS' Voice of Local Shops survey[20]. These surveys have repeatedly shown that retailers remain uncertain about the impact of Brexit on their business. Almost a third of retailers (29%) indicate they do not know what the impact of Britain's exit from the EU will have as the status and progress of negotiations are still broadly unknown. 36% have indicated it will have no impact on their business, but the trend of 'no impact' has declined over the last three quarters. 22% of retailers suggest that Britain's exit from the EU will have a negative impact on their business and this has consistently grown over the three quarters of the survey. As negotiations with the EU continue we expect retailers' views on their impact to become more polarised.

Figure D: ACS Voice of Local Shops Survey: What impact do you believe that the UK leaving the EU will have on your business?



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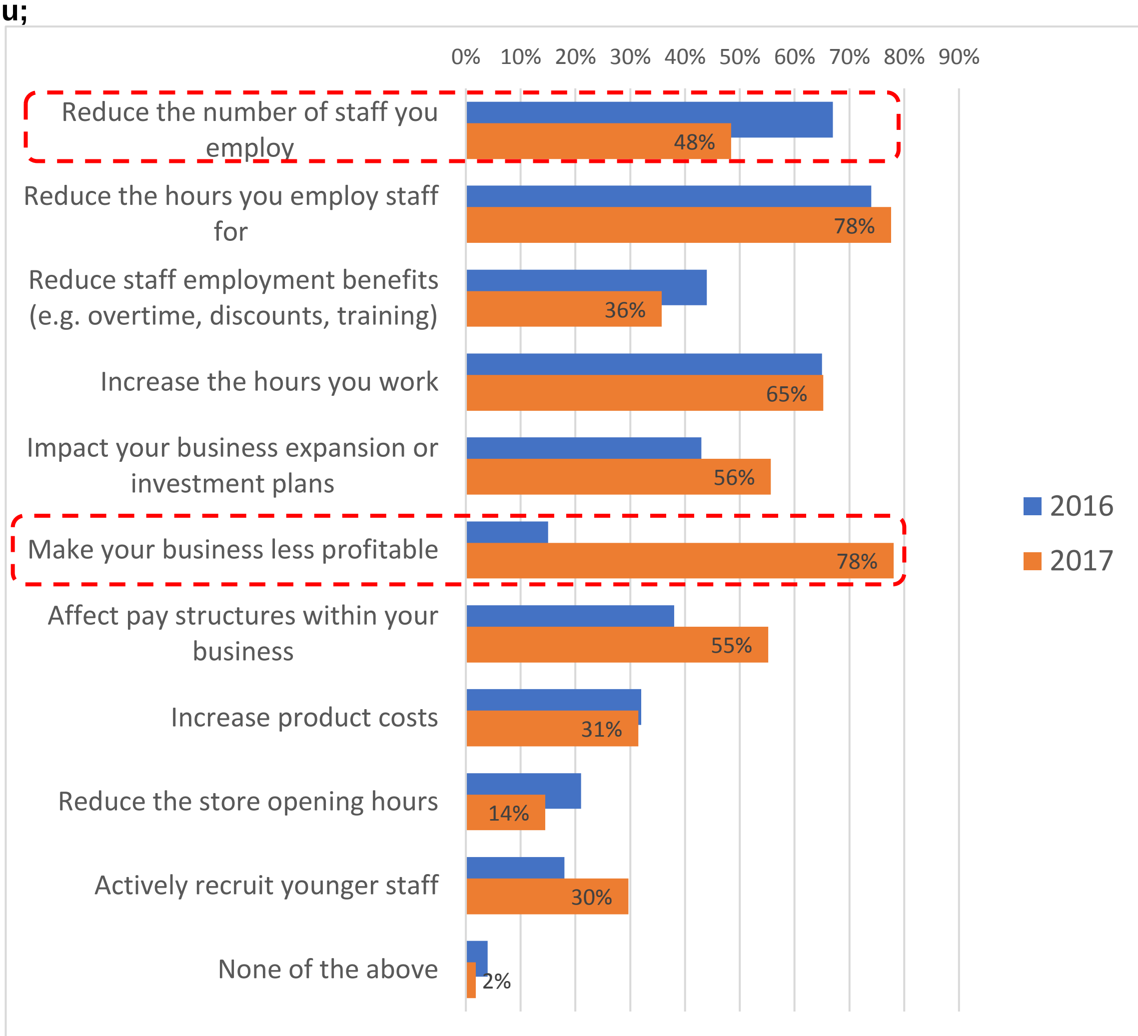
[18] ACS National Living Wage Survey 2017
[19] For an example, see Tesco and Unilever settle Marmite dispute
[20] ACS Voice of Local Shops Survey of 1,2010 retailers; Nov 16, Feb 17, May 17

Impact of the National Living Wage

ACS has completed a bespoke survey of members to inform the Low Pay Commission's call for evidence. The ACS National Living Wage Survey 2017 collected information from 62 businesses representing a total of 4,742 stores, employing 53,613 staff. Data gathered from the survey has been weighted to be nationally representative of the British convenience sector[21]. The full survey design is available at Appendix A.

All respondents to the survey stated that their wage bill had increased because of the introduction of the National Living Wage, with 70% of retailers saying the National Living Wage has increased their wage bill to a large extent and 29% saying it has increased their wage bill to some extent[22]. This is because most convenience retailers are now National Living Wage employers, meaning their wage bills increase in parallel with rises in the National Living Wage. This can and does have a damaging impact on retailers' recruitment and investments plans as they attempt to balance staffing and investment levels to provide positive customer service while retaining business profitability.

Figure E: ACS National Living Wage Survey 2017: Thinking about how you have responded to the increase in the National Living Wage since April 2017, has this made you;



The National Living Wage remains the biggest cost challenge for retailers and has impacted staff numbers, staff hours and the structure of employment within many convenience stores.

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[21] The date is weighted based on the convenience sector date available in ACS' Local Shop Report 2016

[22] ACS National Living Wage Survey 2017

Figure E above compares retailer responses to the £7.20 National Living Wage rate and the £7.50 National Living Wage rate.

Retailers have primarily responded to the 2017/18 rate by reducing working hours in the business (78%), reducing the profitability of their business (78%) and working more hours in the business themselves (65%). Although the actions taken by retailers in response to the National Living Wage have remained consistent across the two years, a higher proportion of retailers have taken the above actions in response to the £7.50 rate than the £7.20 rate. There are also two clear differences between the two years; a drop in the retailers reducing the number of staff they employ and a large increase in the number of retailers reporting reduced profitability.

The decline in the number of retailers cutting staff numbers could reflect retailers feeling they cannot cut staff levels further without damaging customer service levels. Retailers have consistently reported reducing staff numbers in response to rising employment costs, and overall the number of colleagues in the convenience sector between 2015 and 2016 declined by 4% from 407,000 employees in 2015 to 390,000 in 2016[23].

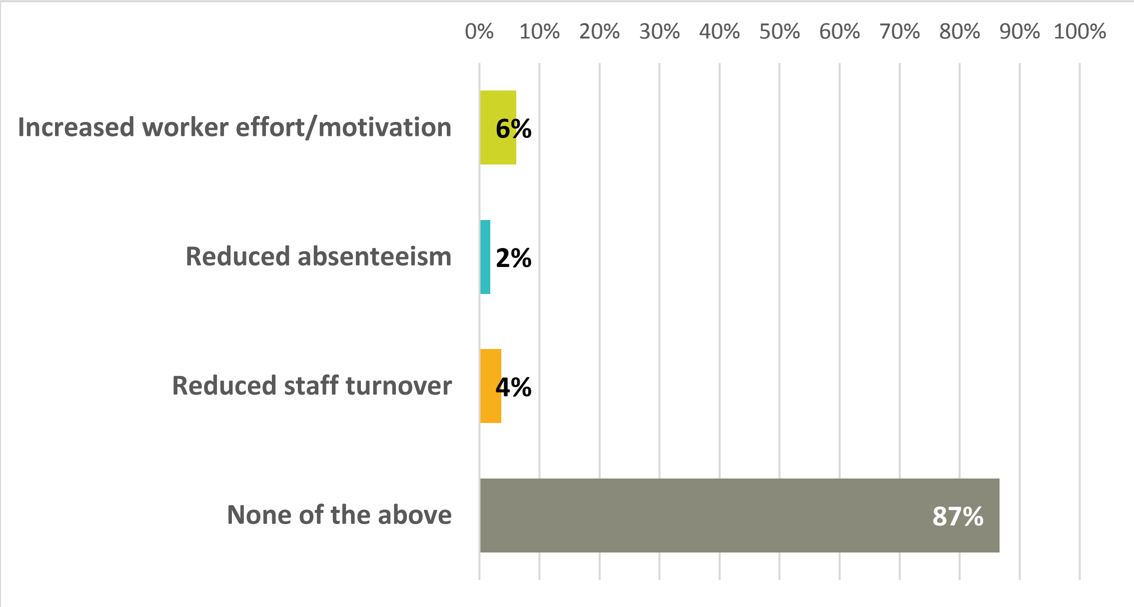
This is causing retailers to focus more on saving costs elsewhere in the business and improving productivity. As examples, retailers are working more hours in the business themselves, changing store layouts to improve the efficiency of deliveries, and operating on minimum possible staffing levels. Retailers report that limited productivity savings can be made from investing in technology (see Appendix C) and the convenience sector is only able to make marginal productivity gains, due to the focus of the convenience sector business model on efficient and personable service.

The high number of retailers reporting a reduction in business profitability can be explained by two factors. Firstly, there was a change in terminology in ACS' 2017 survey compared with ACS' 2016 survey; the 2016 survey asked about 'competitiveness' but this was changed to 'profitability' in 2017 - therefore we cannot draw fully on the comparison made in Figure E. However, we believe the competitive nature of the grocery market and prevailing economic circumstances are reducing the profitability of convenience sector businesses.

Food inflation is now increasing the cost of grocery products, but consumers remain very price-sensitive. Some large and discount retailers can absorb these costs through their greater buying powers but convenience retailers, that often already charge a premium price for their goods, cannot maintain prices and must take a lower margin, impacting business profitability.

[23] ACS Local Shop Report 2016 and 2015 total sector employment figures

Figure F: ACS National Living Wage Survey: Have you noticed any of the following positive impacts as a result of the National Living Wage;



At the request of the Low Pay Commission, we asked retailers to indicate if they had seen any benefits from the introduction of the National Living Wage. As displayed by Figure F, very few retailers reported seeing an uplift in worker effort, reduced absenteeism or reduce staff turnover. In fact, 87% of respondents stated that they had seen no additional benefits.

<u>Wage rates</u>

The most commonly used wage rates in the convenience sector are the National Living Wage rate and the National Minimum Wage rate for 21 – 24 year olds.

Convenience retailers do not tend to employ staff below the age of 18 because the law requires staff under the age of 18 to be supervised when selling age restricted products, such as alcohol and tobacco. Alcohol and tobacco products make up on average 19% of convenience retailers sales[24]. With the need to reduce staff numbers and the high costs of employment, it is not feasible to have a staff supervised on the tills, meaning it is not feasible to have staff members below the age of 18 years old. There is also limited use of the apprentice rate because there is limited demand for apprenticeship training in the convenience sector (see Costs and Issues Faced by the Sector).

ACS' focus group (see Appendix C) indicated that retailers find it difficult to justify paying staff at different rates based on age for doing the same job. However, some retailers are beginning to review existing policies to pay all shop floor staff on the same rate in anticipation of future increases of the National Living Wage towards 60% of median earnings.

Figure G: ACS National Living Wage Survey: Percentage of Retailers Paying the Following Staff £7.50 Per Hour

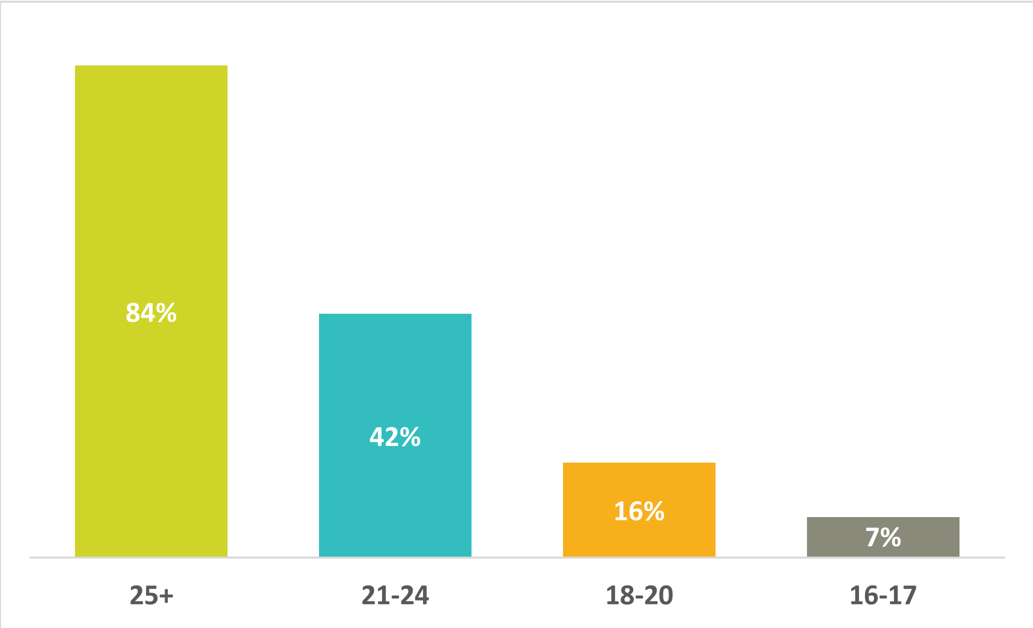


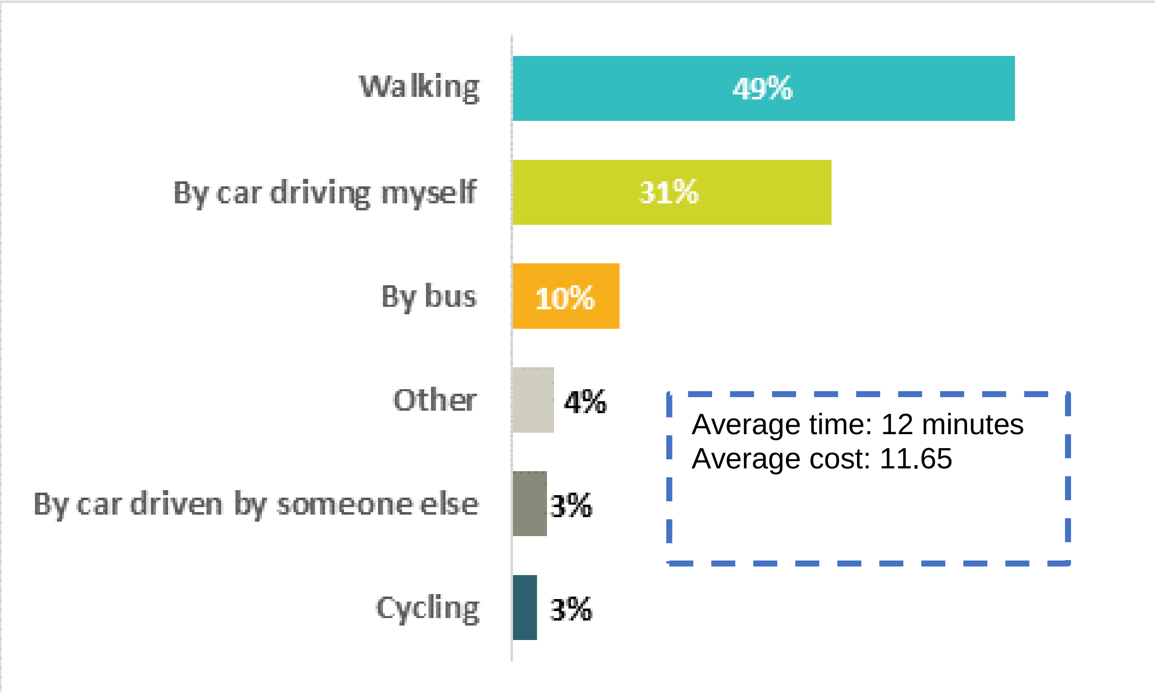
Figure G indicates the use of the National Living Wage rate across the different wage rate bandings. Many retailers acted on the introduction of the National Living Wage by making one-off cuts to staff costs that cannot be repeated, for example removing staff awards and training schemes, necessitating a greater emphasis on structural cost cutting as the National Living Wage continues to rise. This could include making greater use of the different wage rate bandings in future. ACS will continue to monitor the take up of different wage band, feedback from retailers suggest great take up of the low wage bands for younger staff.

Colleagues Working in Convenience Sector

ACS conducts an annual survey of shop floor staff in the convenience sector, which provides insights into their employment and opinions on the National Living Wage. The ACS Colleague Survey 2017 collected information from just over 1,200 employees working in convenience stores across Britain and found that staff are happy in their convenience store employment, with 79% of staff either 'very satisfied' or 'satisfied' with their current job. Colleagues also feel secure in their positions and over two-thirds (68%) perceive they will remain with their current employer in a similar or more senior role in five years' time.

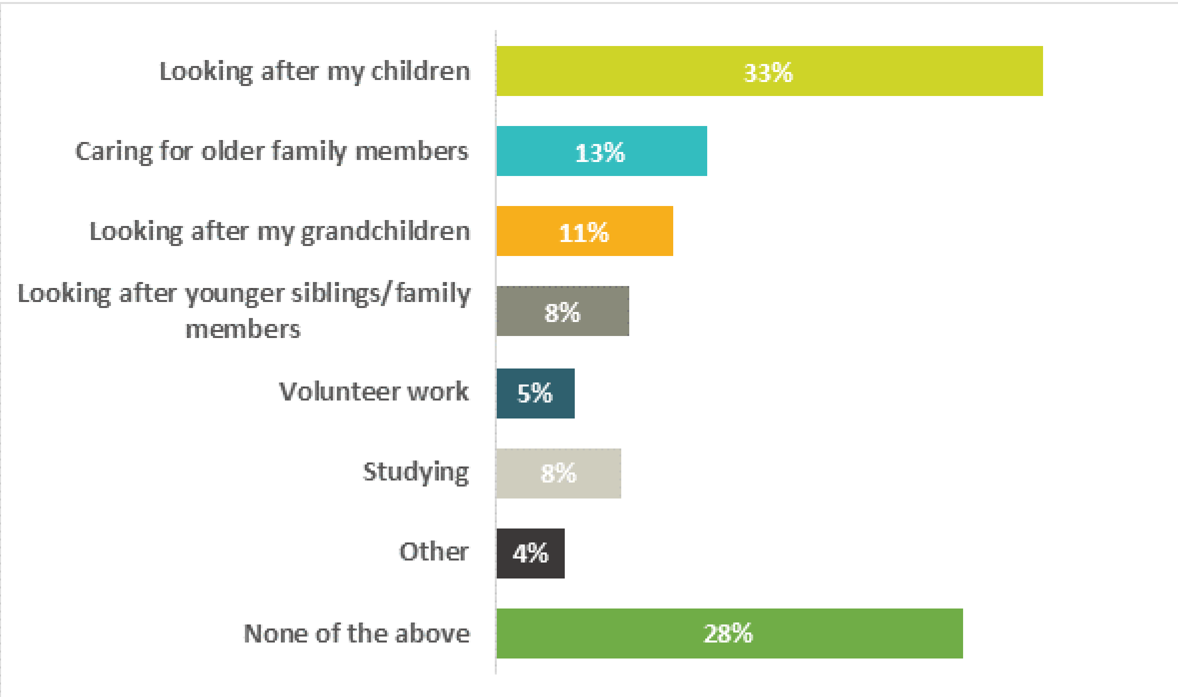
Convenience stores continue to be a source of local employment, with many colleagues working close to where they live. Figure H shows that almost half of convenience store staff walk to work, with an average travel time and cost of 12 minutes and £1.65. This illustrates how convenience stores provide an efficient way of working with low travel costs to work. For example, a person walking five minutes to work a four-hour shift in their local shop at £7.50 per hour would earn more after deducting travel costs than a person travelling half an hour to get to work at a cost of £5.50 for the same shift at £8.75 per hour.

Figure H: ACS Colleague Survey: What is the main way you travel to your place of work?



The hyperlocal employment provided in the sector is also valuable for flexing around existing commitments that staff have outside of work. 72% of shop floor staff in the sector have commitments affecting the number of hours they can undertake, which include caring, voluntary and study commitments, as shown by Figure I.

Figure I: ACS Colleague Survey: Which of the following commitments do you have outside of work?



The ACS Colleague Survey also asked respondents about their attitudes towards the National Living Wage. Figure J shows that almost half (44%) thought that the National Living Wage would benefit them compared to 35% who thought the National Living Wage would benefit retailers. However, the strongest response, from 66% of respondents, was that store prices would increase because of the National Living Wage.

Figure J: ACS Colleague Survey: To what extent do you agree or disagree with each of the following statements?

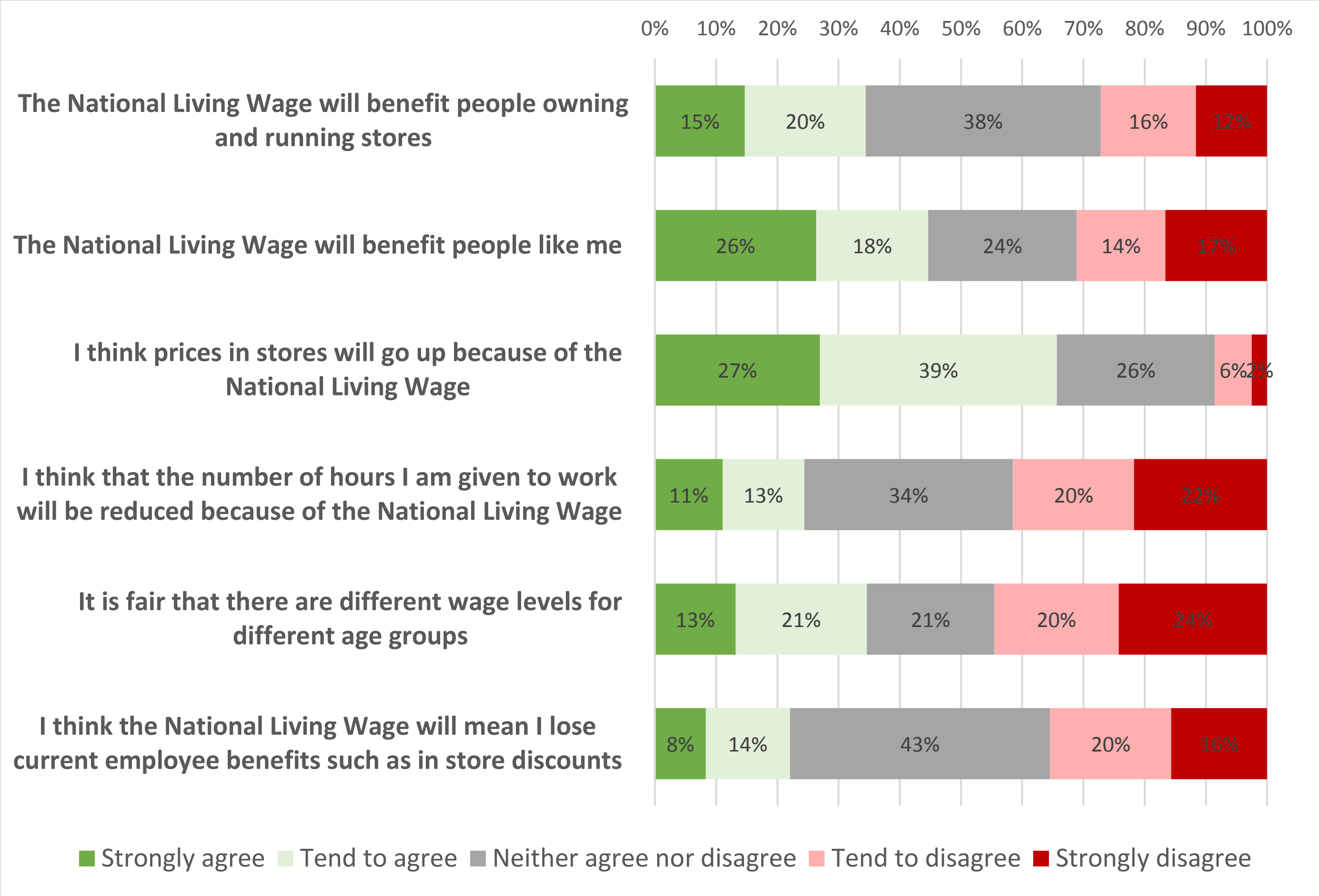


Figure J shows that employees expect the National Living Wage to cause price rises and not impact their working hours. However, this contrasts to retailer reactions (see Figure E), with only 31% increasing product costs and over three-quarters (78%) reducing staff hours in the business.

Wage Recommendations

Reflecting on the impact that the National Living Wage is having on retailers' profitability and employment structures, it is unsurprising that when asked to make a recommendation for the National Living Wage, 75% of retailers favoured a freeze in the rate. ACS understands that it is unlikely that the Low Pay Commission will recommend a freeze in the National Living Wage given the Government's existing target of the National Living Wage reaching 60% of median earnings by 2020, but we encourage the Low Pay Commissioners to consider the impact this is having on small retailers' employment practices.

Figure K below sets out retailers' views on future wage rates. Although most retailers support a freeze, many would also support the Low Pay Commission considering wider economic factors such as the impact of inflation. We urge the Low Pay Commission and the Government to use the same criteria for raising the National Living Wage the same as is currently used for assessing National Minimum Wage rates: "increasing the rate as high as possible without causing damage to jobs and hours'[25].

Figure K: ACS National Living Wage Survey: To what extent do you agree with the following statements;

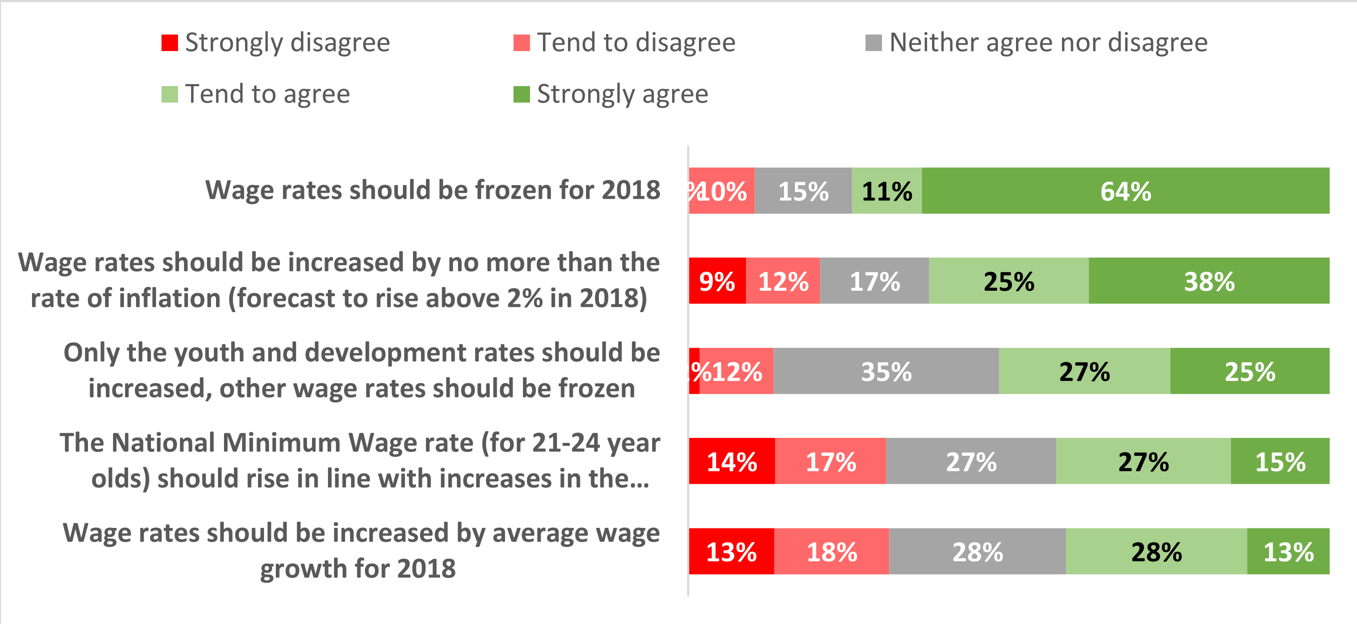


Figure L: ACS National Living Wage Survey: Thinking about your response to projected increases in the National Living Wage for 2018 and 2020, will you;

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[25] Low Pay Commission. Low Pay Commission welcomes acceptance of new minimum wage rates 23 November 2016.

Figure L shows that retailers are concerned about the projected National Living Wage rate for 2018 of £7.90 and the longer-term target of reaching 60% of median earnings by 2020, currently projected to be £8.75[26]. When asked how they would react to future wage rates retailers' responses suggested they would reduce staff numbers and hours further and take less profits from the business.

A higher proportion of retailers also suggested they would increase the price of goods. We know from ACS' NLW focus group (see Appendix C) that retailers are extremely reluctant to increase prices because of consumer sensitivity to price and considerable market competition. However, this view appears to be changing overtime, perhaps because retailers expect higher inflation generally because of the economic uncertainty posed by Britain's exit from the EU, or that price increases will be the only option left available to retailers that are facing increases in their over cost base.

Conclusion

We believe the Low Pay Commission should set wage rates based on increasing them as far as possible without negatively impacting the labour market. The Low Pay Commission should act conservatively when setting the National Living Wage rate for 2018/19, to reflect declines in projections for median earnings and the likely impact of prevailing economic uncertainty on the economy.

[26] Low Pay Commission. A rising floor: the latest evidence on the National Living Wage and youth rates of the minimum wage April 2017.

Appendix A

Thank you for taking the time to complete the ACS National Living Wage Survey.

ACS is looking to evaluate the impact that the National Living Wage has had on the convenience store sector, as well as the effects of possible future increases, particularly for 2018.

We will use this information to inform ACS' submission to the Low Pay Commission as well as in discussions with MPs. All individual responses will be kept anonymous and confidential.

If you have any questions about the survey please contact Steve Dowling, Public Affairs Executive via email (steve.dowling@acs.org.uk) or telephone (01252 515001).

1. Contact information (to be kept confidential)

Name

Company

Postcode

Email Address

* 2. How many stores do you have?

* 3. How many staff do you employ at store level?

4. What is your typical hourly rate for the following staff, which are not on probation or in a supervisory role? (£)

Staff aged 25+	
Staff aged 21-24	
Staff aged 18-20	
Staff aged 16-17	
Apprentices	

5. How many of your staff are EU Nationals (but are NOT British)

6. What does your business pay **annually** in Employer National Insurance Contributions? (£)

7. How many of your staff have opted out of Auto- Enrolment?

* 8. The National Living Wage was introduced in April 2016 for workers aged 25 and over. The current rate is £7.50 per hour. Has the National Living Wage increased your wage bill?

- Yes, to a large extent
- Yes, to some extent
- Yes, to a small extent
- No, but expect it to do so in the future
- No, and don't expect it to do so
- Don't know

* 9. How helpful would it be if the government took the following actions to further mitigate costs of the National Living Wage?

	Very helpful	Helpful	Neither helpful nor unhelpful	Unhelpful	Very unhelpful
Reduce the burden of business rates	○	○	○	○	○
Government funded Statutory Sick Pay	○	○	○	○	○
Exemption from Automatic Enrolment	○	○	○	○	○
Reduction in VAT	○	○	○	○	○
EmploymentAllowance extension	○	○	○	○	○
Corporation tax cuts	○	○	○	○	○

Other (please specify)

* 10. If you have laid off staff in the past 12 months, what was this due to (select all that apply)

- [ ] Increased employment costs
- [ ] Increased utilities costs
- [ ] Increased property costs (including business rates)
- [ ] Reduced sales
- [ ] Reduced profit margins
- [ ] I haven't laid off staff in the past 12 months
- [ ] Other (please specify)

The National Living Wage (for workers aged 25 and over) is currently £7.50 and is projected to reach £7.90 in 2018 and £8.75 in 2020. The National Minimum Wage (for 21 – 24-year olds) is £7.05. For 18 – 20-year olds the minimum rate is £5.60. The rate for 16 – 17-year olds is £4.05 per hour and the Apprentice rate is £3.50 per hour.

* 11. To what extent do you agree with the following statements?

	Strongly agree	Tend to agree	Neither agree nor disagree	Tend to disagree	Strongly disagree
Wage rates should be frozen for 2018	○	○	○	○	○
Wage rates should be increased by average wage growth for 2018	○	○	○	○	○
Wage rates should be increased by no more than the rate of inflation (forecast to rise above 2% in 2018)	○	○	○	○	○
The National Minimum Wage rate (for 21-24-year olds) should rise in line with increases in the National Living Wage	○	○	○	○	○
Only the youth and development rates should be increased, other wage rates should be frozen	○	○	○	○	○

* 12. The National Living Wage increased on the 1st of April 2017, requiring all workers aged 25+ to be paid at least £7.50 an hour.

Thinking about how you have responded to the increase in the National Living Wage since April 2017, has this made you... (Select all that apply)

- [ ] Reduce the number of staff you employ
- [ ] Reduce the hours you employ staff for
- [ ] Reduce staff employment benefits (e.g. overtime, discounts, training)
- [ ] Increase the hours you work
- [ ] Impact your business expansion or investment plans
- [ ] Make your business less profitable
- [ ] Affect pay structures within your business
- [ ] Increase product costs
- [ ] Reduce the store opening hours
- [ ] Actively recruit younger staff
- [ ] None of the above
- [ ] Other (please specify)

* 13. In 2018, the NLW rate is expected to rise to **£7.90** an hour. What is the likelihood of the following impacts on your business if this rate is introduced?

	Very likely	Somewhat likely	Neither likely nor unlikely	Somewhat unlikely	Very unlikely
Close your business	○	○	○	○	○
Reduce the number of staff you employ	○	○	○	○	○
Reduce the hours you employ staff for	○	○	○	○	○
Reduce staff employment benefits (e.g. overtime, discounts, training)	○	○	○	○	○
Increase the hours you work	○	○	○	○	○
Impact your business expansion or investment plans	○	○	○	○	○
Make your business less profitable	○	○	○	○	○
Affect pay structures within your business	○	○	○	○	○
Increase product costs	○	○	○	○	○
Reduce the store opening hours	○	○	○	○	○
Actively recruit younger staff	○	○	○	○	○

Other (please specify)

* 14. In 2020, the NLW rate is expected to rise to **£8.75** an hour. What is the likelihood of the following impacts on your business if this rate is introduced?

	Very likely	Somewhat likely	Neither likely nor unlikely	Somewhat unlikely	Very unlikely
Close your business	○	○	○	○	○
Reduce the number of staff you employ	○	○	○	○	○
Reduce the hours you employ staff for	○	○	○	○	○
Reduce staff employment benefits (e.g. overtime, discounts, training)	○	○	○	○	○
Increase the hours you work	○	○	○	○	○
Impact your business expansion or investment plans	○	○	○	○	○
Make your business less profitable	○	○	○	○	○
Affect pay structures within your business	○	○	○	○	○
Increase product costs	○	○	○	○	○
Reduce the store opening hours	○	○	○	○	○
Actively recruit younger staff	○	○	○	○	○

Other (please specify)

* 15. Have you noticed any of the following positive impacts as a result of the National Living Wage? (select all that apply)

- [ ] Increased worker effort/motivation
- [ ] Reduced absenteeism
- [ ] Reduced staff turnover
- [ ] None of the above

* 16. When do you calculate your wage bill for the year ahead?

- ○ Monthly
- ○ Tax year (April)
- ○ Calendar year
- ○ Other (please specify)

17. Currently, employers are required to pay Statutory Sick Pay (£88.45 per week) to employees who are off sick between 4 days and 28 weeks.

How many of your employees have taken Statutory Sick Pay over the last 12 months?

18. In total, over the past 12 months how much have you paid your staff in Statutory Sick Pay? **(£)**

19. Are there any other comments or issues you would like to raise?

Appendix B

- 79% of convenience store employees are satisfied with their job role (32% Very satisfied)
- For 94% of employees working in a convenience store is their only job
- 32% of employees working in the convenience store sector are the only income earner in their household
- 38% walk to work (48% excluding store managers)
- Employees see stability with their current employers - When asked where they see themselves in 5 years' time - 30% see themselves with a similar role with their current employer and 38% think they will be in a more senior role with their current employer
- On the job training and paid breaks are the most valuable benefits according to those who receive them.
- 72% of employees working within the convenience sector have other commitments outside of work e.g. looking after their children, studying or caring for older family members.
- Convenience store employees find the following aspects the most satisfying about their job role:
    - They work in a convenient location (is easy to get to)
    - Working within the community
    - Having supportive colleagues
- Besides the pay convenience store employees say that being able to work near where they live, help customers and the people that they work with are the most important to them, when thinking about their job.

Appendix C

National Living Wage Focus Group

Minutes of the meeting held on 28th March 2017, 11am – 1230pm

PURPOSE OF SESSION

ACS (the Association of Convenience Stores) convened a meeting of convenience retailers to provide evidence to the Low Pay Commission on the impact of the National Living Wage and wage costs on their business. Retail delegates ranged from independent single-site operators to multiple-site national retailers.

Conor D'Arcy, Policy Analyst, from the Resolution Foundation chaired the roundtable meeting to ensure objectivity. The Low Pay Commissioners also asked retail delegates questions. The ACS and LPC executives did not participate in the discussion.

DELEGATES

Edward Woodall	Association of Convenience Stores
Steve Dowling	Association of Convenience Stores
David Massey	Low Pay Commission Executive
Joseph Cooper	Low Pay Commission Executive
Bryan Sanderson	Low Pay Commissioner (Chair)
Sarah Brown	Low Pay Commissioner
Independent Retailer	Oxfordshire
Independent Retailer	Hampshire
Independent Retailer	Merseyside
Multiple Retailer	Regional
Multiple Retailer	National
Multiple Retailer	Regional

COMPETITION STATEMENT

The chairperson opened the meeting by reading the competition statement:

"UK and European competition law prohibits agreements and concerted practices which have as their object or effect the prevention, restriction or distortion of competition within the United Kingdom.

The prohibition covers competitors entering into agreements relating to pricing and terms and conditions of supply and seeking to divide up markets between them. It also extends to sharing commercially sensitive information including but not limited to pricing, terms and conditions of supply, business plans and marketing plans.

Trade association meetings are very valuable but do put members in a position where it may be possible to break the law if care is not taken. Sanctions for breach include fines of up to 10% of gross group worldwide turnover. Directors and officers involved in such activities risk *unlimited fines plus up to 5 years prison and 15 years disqualification from acting as a director.*

Should the attendees at this or any other meeting make inappropriate disclosures or seek to enter into prohibited arrangements or discuss inappropriate matters that fall outside ACS' remit as a trade association, the Chairperson will close the meeting.

1. CONVENIENCE SECTOR PERFORMANCE

Overview of Questions Asked of Retailers

Retailers were asked how the convenience sector was performing in the current economic climate and whether they had noticed any changing trends in consumer confidence or prices.

Independents Response

Retailers said that employment and operating costs are increasing above inflation. This meant that while sales were growing overall their profits had reduced because margins were continually being squeezed. Consumers continue to be extremely price sensitive.

Retailers suggested that increased operating costs were placing particular pressure on low margin services that they offer in their business, for example Post Office and PayPoint. Whilst these services are important for driving footfall in the store the staff cost of operating them means that many retailers are running them at a loss. Retailers suggested they would review the provision of these services in the future.

Retailers suggested that it would not be possible to pass on the cost of increase employment costs onto consumers. Despite extensive debate in the national media about food inflation, consumers are still not ready to absorb additional costs.

Multiples Response

Multiple retailers commented that overall turnover has increased but profit is stagnant as retailers continue to strive to offer the best prices for consumers. Retailers suggested that the primary focus within their businesses at the moment was driving down costs. This means that they are reviewing staffing numbers and hours, and in some instances the viability of some of their sites.

Retailers asserted that they were still attempting to invest in new services and food offers to keep their businesses relevant. However, it remains a significant challenge to invest across the whole store portfolio – investment in sites is becoming more targeted.

The rise of grocery delivery services has not had a significant impact on the sector because customers use them for different shopper missions. Convenience stores have a low average basket spend and are often used as a subsidiary to the ‘traditional’ weekly shop. Customers are increasingly shopping little and often, partly because of lifestyle changes and the increase in single person households.

2. IMPACT OF THE NATIONAL LIVING WAGE

Overview of Questions Asked of Retailers

Retailers were asked about the structure of employment in their businesses and the importance of the National Living Wage in relation to other rising business costs. They were also asked to comment on the sector’s relationship with migrant labour and the impact of the National Living Wage on recruitment.

Independents Response

Most workers in independent stores are part-time through preference. Staff often have care commitments, study commitments, or do not want to work more hours for fear of losing their Government benefits. Retailers are employing workers on part-time hours because it suits employee's needs, however this does present a challenge for retailers in training their staff as they are increasingly expecting their staff to have more skills.

Single-site operators stated that their primary response to increases in the National Living Wage was for them or their family members to work more hours in the business themselves. Retailers suggested that this puts significant strain on them and makes it more challenging to think strategically about the future of their business.

Retailers raised concerns about other employment costs. Many smaller operators are becoming eligible to pay auto-enrolment pension contributions and retailers also raised concerns about the need to fund statutory sick pay for employees.

Multiples Response

Multiple retailers are reducing the number of working hours in their shops and focusing workers on core tasks. Retailers have already made several one-off cuts to operating costs, for example removing mystery shopper programmes and staff training days. They have also streamlined benefits packages by removing premium pay for antisocial hours and staff awards and are looking for further ways to cut the cost of employment by reviewing staff bonuses and incentive schemes for long service.

Multiple retailers reported that they are currently using the National Living Wage rate for all customer service assistants in their business over the age of 18. This is because they felt it was difficult to pay staff at different wage rates for performing the same tasks because of their age. Retailers reported that it will be difficult to maintain this policy if the National Living Wage continues to increase.

Multiple retailers reported that pay structures were being squeezed between supervisors and customer assistants. Restricted employment budgets are making it difficult to sustain pay differentials. Some retailers suggested that supervisor roles would be removed from the business, leaving a store manager and customer service assistants only.

The Apprenticeship Levy was a big concern for multiple retailers. Retailers suggested that the Levy was costing them thousands of pounds and that they had insufficient time to prepare for its introduction. Retailers suggested that they would be using their Levy funds to train senior staff. The Levy would not be used for customer service assistants as the majority are part-time and had limited interest in completing formal qualifications.

The National Living Wage is not causing a shift in the composition of colleagues in the sector and there was no distinction between the use of migrant labour amongst independent and multiple retailers. However, it was agreed that generally the more diverse a local area, the more diverse the in-store workforce.

3. FUTURE EMPLOYMENT INTENTIONS

Overview of Questions Asked of Retailers

Retailers were asked how they intend to respond to the 2017/18 National Living Wage rate and a National Living Wage at 60% of median earnings in 2020. They were also asked about the future of employment in the sector and the impact of Brexit. The group responded to further questions about the capacity of technology to combat rising costs and how the Government can mitigate rises in wage costs for the sector.

Independents Response

Some independent retailers said they have planned for the 2017/18 wage rates but have not considered how they can absorb future rises in wage costs. Delegates highlighted that the

60% of median earnings target for 2020 does not reflect different local economic circumstances.

The independent retailers indicated that they would reduce paid working hours in the business and that rising inflation may allow them to pass some costs onto consumers in the future. When asked about the impact on business investment, the independent retailers suggested that they had to continue to invest in their business to keep pace with consumer demands for eating out of the home and maintain a broad range of services.

Multiples Response

Some multiple retailers are reluctantly considering introducing lone working into their business. Another multiple retailer said that the number of loss-making stores in their property portfolio is projected to increase by 20% when adjusting for the National Living Wage in 2020. Looking forward, multiple retailers suggested that rising costs will cause them to consolidate their property portfolio. The sector will use the statutory minimum rates for most staff by 2020 with a limited associated benefits package. Retailers believe this will undermine the attractiveness of work in the sector relative to other industries.

Retailers agreed that technology is a limited solution to rising wage costs. Self-service checkouts are expensive and only viable in larger stores, with some multiple retailers trialling them and finding that customers would rather queue to be served by a member of staff for personal customer service.

Brexit is not expected to cause staff shortages, but will lead to increases in wholesale product costs. This will impact margins and lower profits, unless food inflation rises enough to allow sufficient price increases. Delegates predict that unemployment will begin to rise as the National Living Wage approaches its 2020 target.

Appendix D

ACS welcomes the cross-party consensus for a full review of the business rates system. We believe change is needed to deliver a fair, consistent and transparent business rates system which incentivises investment and business growth.

ACS' policy priorities are:

Business Rates Review

- Confirm the timeframes and the terms of reference for the business rates review
- For the rates review to be meaningful it cannot be a 'fiscally neutral'
- The review must seek to rebalance the rating system by reviewing individual rating schemes such as petrol forecourts, ATMs and online distribution warehouse.

Local Government Finance Bill

- The LGF Bill has been dropped by the Government, which included important reforms to the rural rate relief system and a change in annual business rate indexation from RPI to CPI
- We need clarification of how the Government will deliver these important reforms as well as the future of 100% rates retention for local authorities.

Business Rates Reliefs

- Very few local authorities have confirmed what businesses will receive the £300million discretionary rate relief fund. While local authorities decide, businesses are suffering from inflated business rates bills.
- Local authorities should distribute the revaluation support fund urgently to protect local shops and forecourts.

More Frequent Revaluations

- The 2017 revaluation resulted in one in three convenience stores experience an increase in their business rates bills.
- The business rates system must move from a five-year revaluation to a three-year revaluation system.
- The VOA should explore how the smallest business can self-assess their rates bills to be automatically zero rated.

Check, Challenge, Appeal System

- The new rating appeals system is not working. Rate payers are struggling to submit online application because of the amount of information they must provide.
- 32% of convenience retailers lodged an appeal after the 2010 revaluation, with 64% of those to have received a hearing outcome seeing their bills decrease – many of these businesses will be deterred from appealing their rates bills under the new system.

Incentivising investment

- The rates system discourages business investment by penalising ratepayers through higher rates bills.
- The business rates system should reverse this deterrent by providing time limited exemptions for new store developments and letting businesses offset their capital investment against their rates bills.