

Katy Cornish
Secretary
Low Pay Commission
1st Floor, Kingsgate House
66-74 Victoria Street
London SW1E 6SW

25th September 2009

Dear Katy,

Low Pay Commission Consultation on the National Minimum Wage

I am writing to you as Chair of the Independent Retailers' Confederation (IRC) in response to the Low Pay Commission (LPC) consultation on the National Minimum Wage (NMW). The IRC welcomes the opportunity to respond, and looks forward to continuing a dialogue with the LPC going forward.

The IRC represents independent retail groups from a variety of sectors, providing a voice for retailers operating in an increasingly competitive marketplace. These shops and stalls are at the heart of both rural and urban life and, through their presence on the UK's high streets, form an essential part of local communities, providing employment and meeting places as well as offering consumers choice, quality and service.

The IRC believes that independent retailers provide value which goes much wider than the purely economic. For example, small local shops allow many people to shop locally on foot, reducing carbon emissions created by driving to distant out-of-town stores. The services they provide are crucial to their local communities, often allowing the elderly to remain in their own homes rather than having to move to residential accommodation. Small, independent retailers are of crucial importance to several different Government departmental agendas, but the sector is often afforded insufficient significance by policymakers.

Current Retail Climate

Independent retailers demonstrate significant flexibility and ability to survive short-term economic downturns, but retailers are being tested by the prolonged and severe nature of the current recession. Whilst in general the food retail sector has been relatively resistant to the recession there has been a reduction in basket size and footfall and customers are cutting back on luxury items. The impact of the recession and the impacts that this will have on industry and employment in the next few years must be taken into account when deciding on the forthcoming levels on NMW.

To give an idea of the impact of the recession upon the sector, 19,000 shops have closed from the high street this year, which includes 12,000 independent shops¹. A report report from the British Retail Consortium² indicates that one in twelve town centre shops are now empty.

¹ The Local Data Company

² 21st Century High Streets - A new vision for our town centres

Furthermore, retailers entering administration are up 109% year-on-year and 48% quarter-on-quarter.³

Significant numbers of independent retailers are continuing to face the threat of closure, as rising costs combine with static or declining sales to hit viability. Electricity prices, in particular, represent an important cost, which has risen markedly over the past year. In this economic climate, there is little opportunity to build margin to cover such costs, and competition in the recession has been very intense.

In the current economic climate, with unemployment rising, it is vital to provide employment for as many people as possible, even if the wages on offer are below what they would ideally expect. Small retailers provide a large number of flexible jobs close to where people live and often provide the experience and references that allow individuals to move onto better paid employment in the retail sector or elsewhere.

Employment

In March 2009 there were 73,000 fewer jobs in retail year-on-year, a reduction of 2.5% in 12 months⁴. This reflects some of the financial stresses that the retail sector has been under as well as the additional employment costs that have been added on to business.

Over the past year there have been several new regulatory costs that have hit the independent retail sector, which we believe must be taken into account when calculating the NMW rate for 2010/11. Examples of such changes include:

- **An additional four days annual leave have been given to employees this year**, raising the annual holiday entitlement to 28 days compared with 20 days in 2007.
- **An increase in 1.2 per cent on NMW**. Whilst lower than any previous rise, this was higher than inflation and average wage growth, and came in at the same time as the four day increase in annual leave.
- **Flexible working regulations, Train to Gain and the Working Time Directive** have all come into force this year.

These all add costs and take money off the bottom line of businesses. For many businesses in the current economic climate there is not the slack to absorb these additional costs and it means making cuts to ensure that employment costs remain the same.

Business Rates

The Government increased business rates in April 2009 by 5 percent, a figure based upon RPI at September 2008 levels, which had subsequently fallen to -1.6 per cent at time of entry-into-force. The change was therefore completely out of touch with the economic conditions at that time.

Whilst the Chancellor announced a deferral scheme to offset the 5 per cent increase, this was done in a very burdensome way, announced only on the day of the increase despite the fact that the business community, including the IRC, had been calling for action for many months in advance. The right to defer business rates therefore did not come into effect until July 2009 by which time businesses had been paying the 5 per cent increase for many months.

Pensions Act 2008

The Pensions Act 2008 means that from 2012, all eligible workers will be automatically enrolled into either a good quality workplace pension scheme or into the personal accounts scheme (unless they are already in such a scheme). This will mean the introduction of a minimum employer contribution of at least 3 per cent, as well as accompanying administrative burdens. It is vital that this is taken into account by the LPC, particularly when considering the NMW levels for

³ Insolvency Service

⁴ NOMIS

2011, as businesses are already starting to plan how they will account for this increase in employment costs.

The National Minimum Wage

The retail sector depends heavily on the NMW; more so than many other sectors due to the nature of the work and the level of skill required for most junior and entry-level positions. The reasons for this are manifold, but primarily:

- A high percentage of retail employees are seasonal
- A high percentage of retail employees are unskilled and untrained
- A high percentage of entry-level retail positions require no skills or specific training

The retail sector offers an ideal arena for school leavers to commence their careers, learning not only the skills of retailing, but also areas of business administration, customer services and financial management skills that can benefit them in long term careers. Furthermore, independent retailing offers the opportunity to learn specialist skills and product knowledge that adds to consumer choice, the customer experience and retail sector service. This potentially increases the longevity of such provisions, as skilled employees within the specialist retail sector are more likely to go on to become retailers in their own right.

Retailers – specialist and others – are dependent upon employees as their number one USP; nothing is more important in independent retailing than people. There are very few working environments in which an employee can benefit from one to one business education from the proprietor on a day to day basis, benefiting from years – sometimes generations – of experience and knowledge. Independent retailers therefore greatly value their staff and want to pay them a decent wage.

Staff wages are a key operating cost for independent retailers and as such are a primary concern for retailers. The decisions of the LPC on the NMW therefore have a huge impact upon the independent retail sector.

Small, independent retailers are disproportionately affected by changes to the NMW compared with other type of business. These types of retailers are often running on such tight margins that any increase in costs translates directly through to the profit figures. By their nature, independent retail is labour intensive and there is often little opportunity to significantly improve staff productivity. Higher wages therefore result in one or more of the following outcomes:

1. The number of staff hours employed is reduced
2. Prices increase
3. Investment in the business is reduced
4. Remuneration to proprietors is reduced
5. Closure of the business.

The most popular means of reducing staffing costs has been to not replace staff upon their departure from the business. This generally means that the shop proprietor ends up working those additional hours themselves with many shop owners working up to 65 hours a week. This often results in proprietors effectively paying staff considerably more per hour than they can afford to pay themselves.

NMW increases have made employing staff increasingly difficult for many independent retailers. The area where it has had the most impact has been in wage differentials, with businesses now having to pay those with more senior jobs the same or just slightly more than workers with little responsibility or experience. With previous increases employers have tried to apply the same percentage rises to all employees, however this is starting to prove too costly for many companies. The fact that small shops are now less able to pay in accordance with responsibility makes them less able to attract and retain staff, which is an important example of why increases

in the NMW must be limited. Increases affect the whole pay structure, not just those earning the NMW.

Recommendations

We were pleased the LPC responded to the recession by taking extra time to analyse the impacts of an increase on employment prospects for those on NMW. Whilst we welcome the lowest ever increase in NMW, we are concerned about the uncertainty that the delayed announcement brought as well as concerns that there will be a significant rise in 2010/11 to offset the low rise of 2009/10.

The restraint showed in the last NMW rise was welcome, and we support the LPC's decision to reverse the general trend of increases. However, retailers continue to face the pressures of high wage costs in an extremely challenging economic environment.

We therefore believe that given the continuing uncertainty over the economy there should be **no increase in NMW for 2010**. At the end of this point there should be a better understanding of the economic performance and so the rate for 2011 should be considered separately at this time.

The IRC would be happy to provide further information to the LPC as required and we look forward to engaging with you on the NMW in the coming weeks and months.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'K Parsons', written over a light blue horizontal line.

Kenneth Parsons
Chairman

Enclosed: IRC campaigns and membership information