



**ACS Submission:
Business, Innovation and Skills - Productivity Plan inquiry**

Introduction

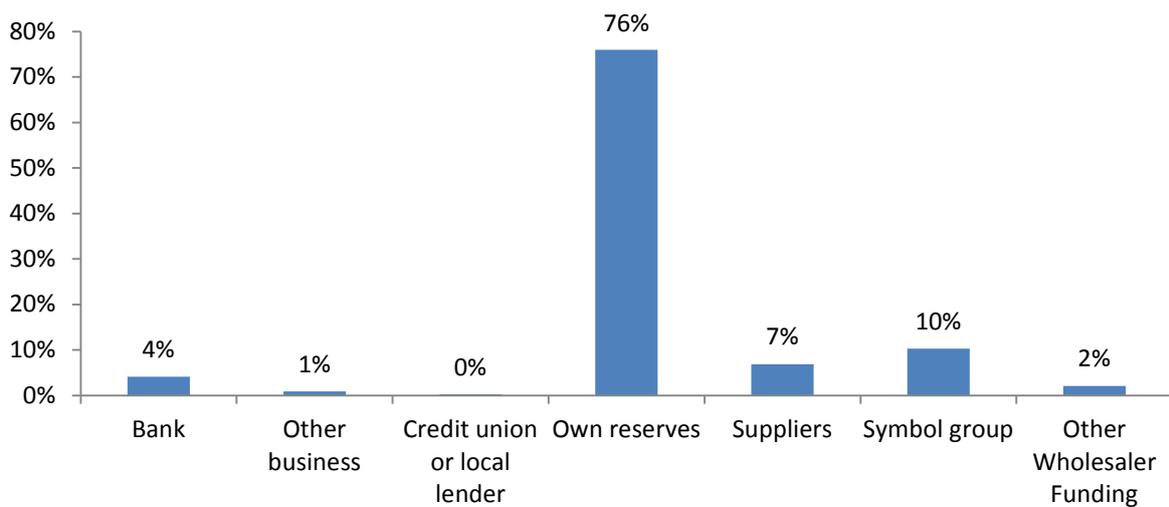
1. ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the Department for Business, Innovation and Skills' Productivity Plan inquiry. ACS represents 33,500 local shops across the mainland UK, including the Co-operative Group, Spar UK, Costcutter Supermarkets, Nisa Retail as well as thousands of non-affiliated independent retailers.
2. Owners of local shops work hard to improve productivity. For example, convenience store businesses invested over £177 million in the three months ending June 2015 in a range of technologies as well as storage solutions and building improvements. Additionally, convenience stores make significant investment in human capital which both increases the career prospects of workers while raising productivity. For example, 35% of shops offer food safety training¹.
3. ACS agrees that a focus on improving productivity is a good thing, but feels that the introduction of the National Living Wage and the proposed devolution of Sunday trading regulations has the potential to damage productivity by reducing investment.

Do you agree with the Government's assessment of the reasons for the UK's productivity slowdown (as outlined in the Annex to the Plan)? Has the Government acknowledged all of the main causes of the UK's poor productivity growth?

4. ACS agrees that investment is an essential factor behind productivity growth and improving businesses' access to capital is key to driving productivity increases.
5. Point A.9 in Fixing the Foundations mentions the idea that "the financial crisis has resulted in impaired resource allocation across the economy, preventing capital and labour from finding their most productive uses and weighing on productivity growth". While recognising that improved access to capital is necessarily a good thing for businesses, evidence from ACS could be seen as suggesting that convenience stores, particularly those run by small businesses, are able to fund investment even when times are difficult through a variety of means.
6. Figure 1, below, shows sources of investment for independent convenience retailers who invested over the three months ending June 2015, showing their ability and determination to improve productivity even when bank funding may be difficult to come by. Many report using their own reserves as a source of investment. While recognising the ability of retailers to find alternative sources, ACS recognises that business owners should not be *forced* into using their own reserves and welcomes the plan to improve the equity finance market. ACS is also eager to learn the details of how this might affect businesses, both small and large.

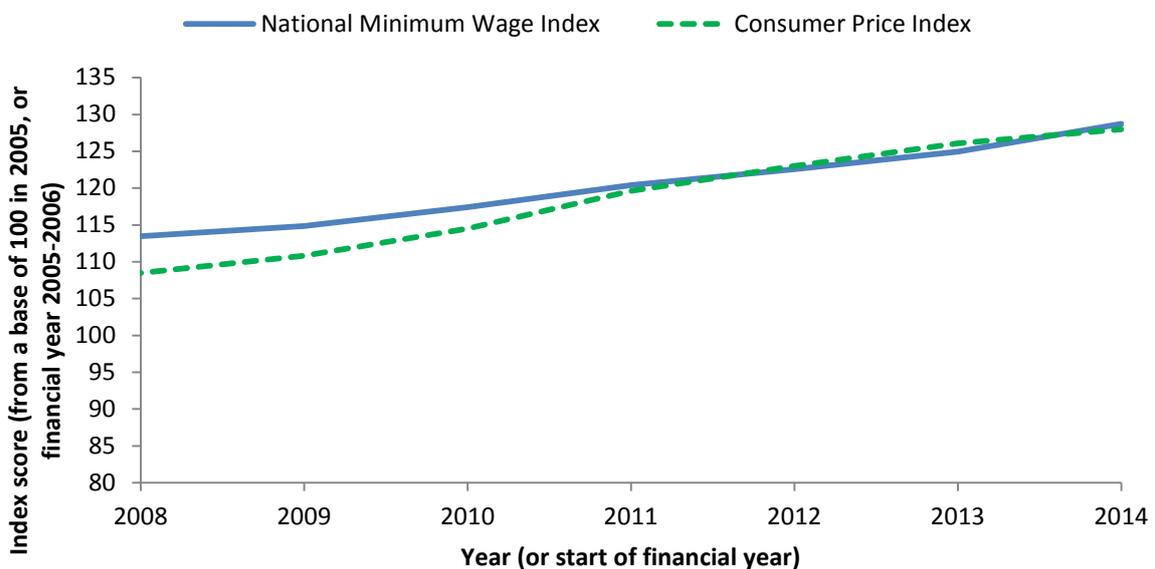
¹ ACS Local Shop Report 2015

Figure 1 (Sources of Investment for independent retailers)



7. Point A.11 states that “the low cost of labour since the [financial] crisis may have led firms to substitute away from investment”. However, it is important to bear in mind that those sectors which are most sensitive to changes in the National Minimum Wage are not likely to have seen significant reductions in labour costs since the crisis, as demonstrated by Figure 2, below. The implication here is that, with employment costs consistently rising at near to or above the rate of inflation, businesses most sensitive to National Minimum Wage increases have less room for manoeuvre when deciding on how to spread increases in costs, which may negatively affect their ability to make investments to improve productivity.

Figure 2 (National Minimum Wage and Inflation)



One pillar of the Government’s Plan is to increase “long-term investment”. It outlines eight areas with specific measures to increase productivity.

- a. **Why has the UK’s long-term investment been so low up to now?**
- b. **How can we ensure that the measures relating to long-term investment in the new Plan will contribute to productivity growth?**

The second pillar of the Government's Plan is to encourage a "dynamic economy". It outlines seven areas with specific measures to increase productivity.

- a. What are the main weaknesses of our economy, in terms of dynamism, which are suppressing our productivity?**
- b. Do the measures introduced under in the plan address those weaknesses and are they appropriate?**

Overall, does the Plan adequately address the main causes of low productivity in the UK (as discussed in question 1) and will it have the desired results?

8. The convenience sector is highly entrepreneurial and 75% of shops are run by independent businesses² These independent businesses make a key contribution to the productivity of the UK economy though their dynamism and ability to fill gaps in the market and potentially transform into the high growth SMEs described in Fixing the Foundations³. This report states⁴ that the government will support independent businesses with the increased costs associated with the NLW though an increase in the Employment Allowance from £2,000 to £3,000 a year. However, around 14% of independent businesses in the sector will save nothing from this, as they are already under the upper limit of the existing Employment Allowance⁵. In fact, some retailers (6%) will save nothing from the Employment Allowance increase at all. It should also be noted that multiple-owned stores will make a negligible saving though the Employment Allowance increase, around £7 per store per year.
9. ACS research has shown that when costs to shops rise, investment is one of the first expenses to be cut (with 62% of retailers saying that expansion or investment plans were impacted when asked about the impact of past wage increases⁶). Additionally, encouraging investment in technology and staff equipment has been identified as a key method to encourage productivity in the Productivity Plan. Bearing this in mind, as well as the evidence that the Employment Allowance increase will not offset employment cost increases, the introduction of the NLW can actually be seen as a barrier to retailers increasing the productivity of their business, rather than encouraging it to grow.

² ACS Local Shop Report 2015

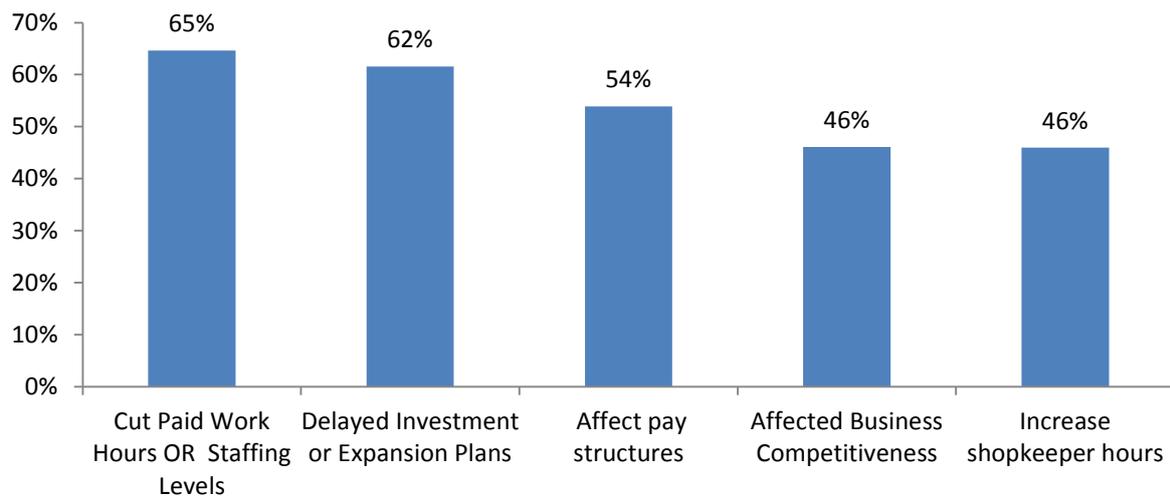
³ "Fixing the Foundations", Presented to Parliament by the Chancellor of the Exchequer by Command of Her Majesty (2015), p62.

⁴ "Fixing the Foundations", Presented to Parliament by the Chancellor of the Exchequer by Command of Her Majesty (2015), p49

⁵ ACS Living Wage Survey 2016

⁶ ACS Living Wage Survey 2016

Figure 3: Responses to “Have increases in employment costs led to any of the following?”



10. Another potential flaw in the Productivity Plan’s link between the introduction of the National Living Wage relates to the popular opinion⁷ among economists that increases in productivity due to wage increases may actually attributed to *relative pay* differences, rather than increases in simple terms, meaning that any existing relationship between introduction of the living wage and productivity increases may be overstated because those firms who’ve seen a productivity increase were benefiting from a “first mover” advantage. As the Institute of Economic Affairs points out, “the NMW has risen significantly relative to average earnings since its introduction in April 1999. During that time, the NMW increased by 75 per cent in nominal terms, whilst average earnings have increased by 61 per cent”.⁸ Although causation is difficult to establish given the range of factors at play, the fact that productivity has struggled to improve while wages have increased relative to average earnings makes it seem even more likely that a link between increased mandatory minimum pay and higher productivity is spurious. Even those studies which do find a link between a raised wage floor and higher productivity recognise that the mechanism is unknown,⁹ further raising the prospect of productivity being lowered though decreasing investment among businesses who struggle to deal with such a large increase in employment costs.

11. Lastly, deregulation of Sunday trading is also likely to have a range of negative impacts on productivity for both the convenience sector as well as the UK economy as a whole. The BRC/KPMG Retail Sales Monitor showed like for like sales decrease by 0.4% in the period most closely corresponding to the temporary Sunday trading deregulation (August 2012),¹⁰ while the equivalent ONS Retail Sales figures also showed a sales slump.¹¹ Crucially, sales would normally be expected to rise with the added visitors and excitement during a large sporting event. This relates to

⁷ See Irving, E. "Living Wage: A UK Perspective." Schrodgers Talking Point (2015), p4 for a brief discussion of this point

⁸ Bourne, R., and J. R. Shackleton. "The Minimum Wage: Silver Bullet or Poisoned Chalice?" Institute of Economic Affairs Briefing 14:01 (2014), p6

⁹ Riley, R., and C. R. Bondibene. "The Impact of the National Minimum Wage on UK Businesses." *The Impact of the National Minimum Wage on UK Businesses* (n.d.): n. pag. Report to the Low Pay Commission, Feb. 2015. Web. 10 Sept. 2015

¹⁰ Treanor, J., and J. Moulds. "UK Retailers Fail to See Boost from Olympic Feelgood Factor." Guardian, 4 Sept. 2012. Web. 27 Aug. 2015

¹¹ "Retail Sales, August 2012." Statistical Bulletin. Office of National Statistics, 20 Sept. 2012. Web. 27 Aug. 2015

productivity given that ACS research¹² shows that investment suffers when costs rise relative to income, and by the same coin, it can be expected that investment would be cut back as businesses adjust to lower sales. There is also a more immediate negative impact on productivity if Sunday opening hours increase without a commensurate increase in sales, the same output would be spread across a greater number of staff hours.

For more information on this submission, please contact Peter Fairfax at peter.fairfax@acs.org.uk or by calling 01252 515 011.

¹² ACS NLW Survey 2016