



NATIONAL MINIMUM WAGE SURVEY ANALYSIS

The Low Pay Commission is currently undertaking a review of the effect of the National Minimum Wage (NMW) with a view to making recommendations for increases in the rates for October 2009/10. In order to inform its representations, the Association of Licensed Multiple Retailers (ALMR) conducted a survey of its members looking at the impact of recent changes in NMW rates on business practice and the likely effect of future increases.

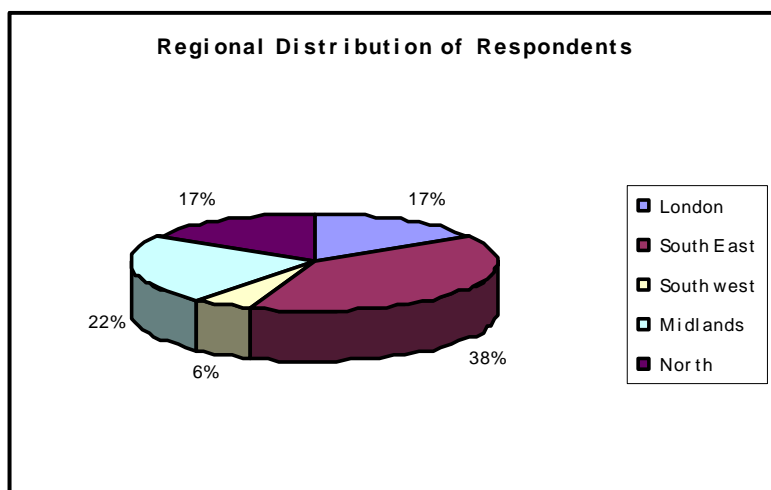
This paper provides a detailed analysis of the responses received. Further information is available on request.

Methodology

- The ALMR is the only national trade body representing the interests of pub and bar operators. Our members are split between companies who own the outlets – pub companies and regional brewers - and small independent companies who operate or manage them. The former do not have any involvement in the day-to-day operation of the businesses and decisions about staffing and pay levels. For the purposes of this submission, these companies were excluded from the survey.
- A detailed questionnaire (attached) was sent to 58 managed operators – ranging from large, national chains to independent companies with only 4 outlets. Responses were received from 21 member companies, between them operating 1088 outlets. This represents a response rate of just over a third in terms of companies eligible to participate and is a robust level of response to a postal survey. The response rate is also significant in terms of the total universe of managed pubs and bars in England and Wales – representing almost 11% of outlets.

Type of Respondent

- The response covers a good cross section of ALMR membership both in terms of size of company and geography. Responses were received throughout England, although there was considerable bias towards London and the South East (61% of respondents). It is worth noting, however, that regional discrepancies in wage rates are becoming dramatically less marked the higher than NMW is set. When the ALMR first carried out its wage rate surveys a decade ago, there was almost a full £1 difference in wage rates between the highest and lowest paying regions. Now, the difference is minimal and is more likely to be due to style of operation rather than location of employer.





- The majority of ALMR members are small, independent companies with an estate of fewer than 50 outlets and 90% of respondents fall into this category. The smallest company responding has an estate of just 4 pubs, whilst the largest has over 500. 45% of respondents operate between 1 and 10 outlets; 20% run 11-20 outlets; 25% have an estate of 21-50 outlets and just 10% have a larger estate.
- Between them, the companies employed almost 26,200 staff – an average of 23 staff per outlet. Just over half of these (56.6%) are employed on a full-time basis, 43% are part time workers and 0.4% are on a temporary or casual contract.

Average Rates of Pay

- Respondents were asked to provide information on the average hourly rate of pay for basic bar staff and the average rate of pay for other staff. They were also asked for the lowest and highest hourly rates applied to these staff. The reason for separating out basic bar staff is that these are the workers most likely to be affected by the NMW and this avoids distorting any overall average which takes into account higher paid or more experienced workers or workers which attract a higher hourly rate such as chefs.

The current average rate of pay for bar staff within the survey was £5.91 with a median of £5.95 and mode of £6.00. The range of average hourly rates was a tight band of £5.49-£6.

	Average	Median	Mode	Lowest	Highest
Bar Staff Range	£5.91 (£5.49-£6.50)	£5.95	£6.00	£5.28 (£4.77-£5.52)	£7.15 (£5.52-8.50)
Other Staff Range	£6.21 (£5.15-£8.50)	£6.00	£6.00	£5.37 (£4.60-6.00)	£8.58 (£5.73-£12.50)

- A significant number of respondents indicated that they had increased hourly rates in advance of the October 2008 deadline and therefore their average hourly rate reflected this. It is common for employers in the sector to increase hourly rates at a particular calendar point or on the anniversary of the individual joining the company, not necessarily on 1 October.
- Just under half of respondents were paying at or around the 2007/8 NMW levels within their businesses. This is significantly higher than those replying to our 2006/7 survey, when 35% indicated that they were paying NMW rates. The last time we saw similar proportions of companies paying workers at or around the current NMW rate was in 2003/4 and a similar proportion to our 2004 analysis. However, this is largely accounted for by the fact that we have moved to annual assessment and review.
- 68.5% of respondents were paying an average hourly rate of between £5.52 and £5.73 ie at or around the known levels for 2008/09 – a similar proportion to those in 2007. This is the fourth consecutive year in which we have seen average hourly wage rates within the sector track the NMW. The NMW is now established as being the average rate of pay for basic bar staff within the sector – workers not previously classified as being low wage earners.
- The distinguishing feature of replies to this survey was the clear commonality of wage rates amongst respondents. Previously we have had a wide range of different rates of pay. This time there were effectively 3 levels:
 - £5.52: 47% were paying the current NMW (in 2007 it was 35%)
 - £5.65-5.75: 21% were the future NMW rate (in 2007 it was 40%)
 - £6.00: 32% were paying £6.00 (in 2007 it was 25%)



Interestingly, the upper level of hourly rates for average bar staff has not increased since our last survey. In 2007, we carried out the same analysis, grouping workers paying £5.35, £5.50-5.60 and £6.00. Whilst the two lower pay bands have changed as a result of the NMW, there appears to be reluctance to breach the £6 pay band for basic hourly paid workers. This suggests that the higher the NMW has gone the greater the erosion on differentials within the industry.

- Only 42% of respondents reported a different rate for other workers. This is significantly down on previous surveys where a different hourly rate was reported. This situation has worsened considerably over time. In 2004, 60% of companies reported a different rate for bar and other staff, this had fallen to just over half by 2006.

Pay-Related Issues

- Just over half of all respondents (55%) operate different rates of pay according to the age of the worker. Because of the restrictions on the age of workers in bars, all of these applied only the adult and the 18-21 year old rate. Of those applying age related rates of pay, 58% applied the adult rate to those aged 22 and over. A quarter awarded the full adult rate to those aged 18 and over and the remainder applied it at age 21.
- In view of the ongoing consultation about the use of tips, we also asked operators whether they made up the NMW rate with tips. Only 1 respondent did so, affecting just 37 workers. This suggests that this is not an issue of particular significance for the pub and bar sector.
- Finally, we asked about the proportion making use of the accommodation offset provisions within the NMW. Half of all companies had staff living in company accommodation, but this represented only a small proportion of hourly paid staff. In the pub trade, it is mainly salaried/management staff which live in premises. Just over 7% of staff paid by the hour live in. However, only 40% of these deducted amounts for accommodation – the remainder made no deductions. The amount deducted varied from company to company but ranged from £10-50 per week.

Impact of October 2008 Uprating

- In a change from previous surveys – and in order to reflect the annual nature of the assessment, respondents were asked whether the then forthcoming October 2008 NMW increase would result in them having to increase their basic rates of pay. Previously we have asked about the impact of past increases.
- For the fourth survey in a row, almost all respondents indicated that they would have to increase basic levels of pay - 95% of respondents said that the planned change in the NMW in October 2008 meant that they had or would need to alter wage rates to comply. Just one company said that their basic wage rates would remain unaffected – representing just 0.5% of outlets. In 2006, just under two-thirds of respondents had had to react to comply with changes in the rate and in 2007 this figure had increased to 75%. This underlines the fact that the NMW is now the average rate of pay and demonstrates the tremendous impact it has had on wage rates.
- In terms of affected workers, our members reported that 10,753 workers (42% of all staff) had received a pay increase as a direct result of increases in the NMW, with their hourly rates having to increase by between 19-21p per hour in order to comply. Assuming an average weekly shift of 35 hours, that is an increase in weekly pay of some £382 per worker.



- Extrapolated across the pub and bar industry as a whole, that suggests that around 231,000 workers have been directly affected by the October 2008 change, at a cost of some £88 million for the industry¹. Respondents have indicated that, in the current economic climate they do not feel able to put up prices, so this amount will come directly off the bottom line.
- The NMW not only has an impact on basic wage rates, it has an inflationary effect throughout the pay structure through the maintenance of differentials. 63% of respondents said that they had had to increase rates of pay for more experienced staff working at the same grade. This is consistent with previous surveys carried out in 2005/6 and 2007. However, it slipped from the 5th most frequently cited issue to 6th suggesting that the NMW is continuing to flatten differentials at the lowest level – employers can no longer afford to justify significantly different rates for more experienced staff.
- However, the impact on higher grade staff is more marked. In 2006, only 53% said that they had had to change wage rates for these employees, this year 63% said that they had had to increase rates for higher grade staff as a result of recent increases. If differentials are becoming eroded at the lower levels, they appear to be respected at the higher ones. This may be down to the fact that the decision to peg increases at wage rate inflation has proved more manageable and less disruptive to career and salary structures within small businesses – they have continued to be able to reward staff who take on extra responsibility.

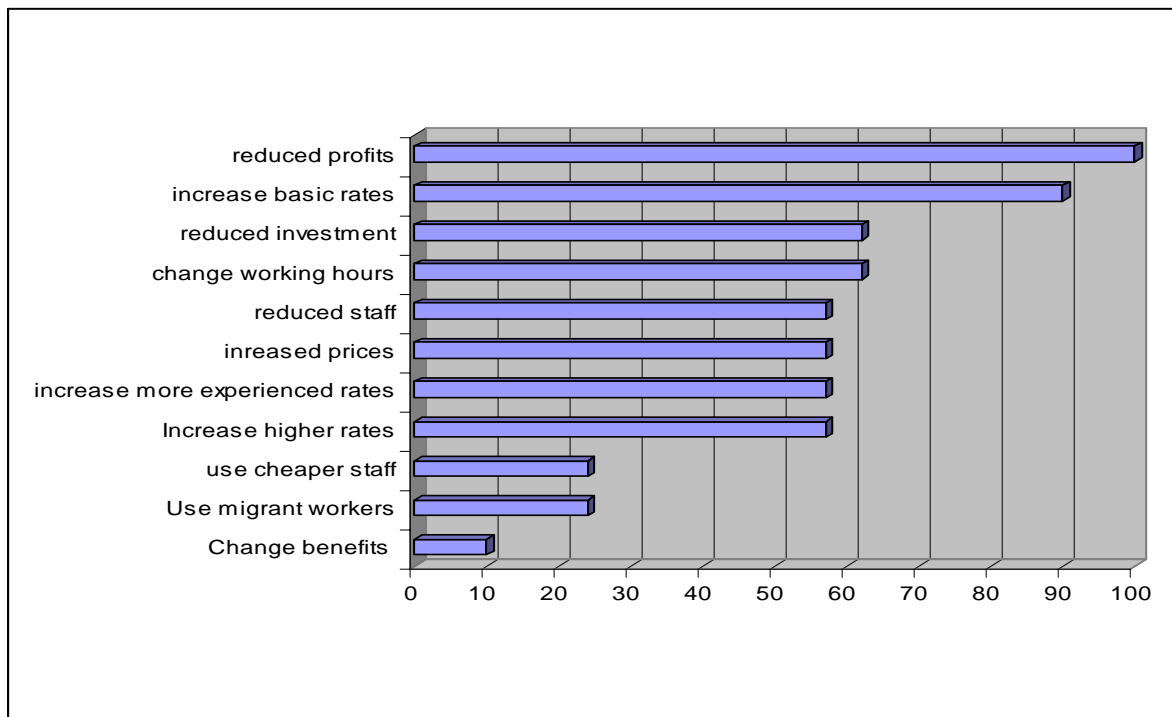
Impact on Business

- These successive increases have had a dramatic increase on total overall costs. Wage costs are the single biggest overhead in pub retailing and respondents were asked what proportion of their total turnover they accounted for. Gross employment costs currently account for 29% of total turnover.
- Following the October 2008 increase, respondents estimated that that would increase to 30.7% of turnover – an increase of some 5.9% and well above average wage rate inflation. The range of responses was 20 to 37% of turnover and this is the first time that no respondent has reported an employment cost below a fifth of total turnover.
- When we surveyed our members in 2006, gross employment costs represented, on average, 25% of turnover. Employment costs have therefore increased by some 23% since the last time the LPC conducted a full review of the NMW and its effects.
- This is a significant and increasing burden for businesses to bear. The *ALMR's* earliest surveys for the NMW reported a gross employment cost of around 17-18% of turnover. In 2004, gross employment costs represented around 20% of total turnover and that rose to 24% in 2006. This level of increase in a cost centre is extremely difficult to manage and puts incredible pressure on margins and business profitability.
- Although the NMW is by no means the only employment cost to have been absorbed by companies over the period, it is the most significant. Our survey produced further evidence that the impact of the NMW is biting hard and is being felt by companies and sectors not traditionally felt to be low payers.

¹ There are 57,500 pubs and bars in the UK and some 550,000 workers employed within them



- Indeed, all respondents anticipated that the resultant increase in their company's wage bill would lead to reduced profits, thus limiting their ability to invest in their business – this is up from 83% of respondents in 2006. The above analysis shows that the impact of the NMW on the sector is now so great that companies cannot absorb it.



- Reduced profitability was only the third most frequently cited impact when we last conducted a full survey of members in 2006. Then, all respondents said that they had had to increase basic rates in order to comply with the 2005/6 round of increases and almost 85% chose to put up prices to deal with the increase. In October 2007, this had dropped to 75% of operators increasing prices and in 2008 it is down further to just 57%.
- This decline in the willingness to put up prices should not be taken as a sign that continued wage rate increases are acceptable, but rather that retailers feel unable to pass on these types of costs to consumers. This is particularly the case given the ongoing and increasing competition from the off-trade which already means pub prices are four times those of supermarkets. the Chancellor's decision to introduce an excise duty escalator for alcohol which has resulted in significant increases in the price of a pint. There is evidence that higher prices are beginning to deter customers from visiting pubs and therefore operators are reticent to put up prices further.
- This reversal of trends has very real repercussions for the sector as a whole and employment within it.

Business Decisions Taken

- Respondents were then asked to indicate whether they had made any changes to their business as a result of the most recent NMW increases. This was designed to assess the broader impact of the NMW on the business over and above increases in basic pay.
- For the first time, we see the need to increase wage rates being secondary to the decisions needed to manage the impact on the business – by taking a hit in profits and



putting up prices where possible. This suggests that the decision to limit the increase in NMW to wage rate inflation has yet to fully feed through to business decision making and that the commercial effects or previous successive swingeing increases are still being felt and worked through.

- The second way in which companies attempt to offset increased wage costs is by keeping the overall wages bill the same and looking at different ways of allocating costs within it. We have already noted the flattening of differentials at the lower end of the scale which is part and parcel of this. This appears to be a more significant commercial impact than we have seen heretofore.
- Other mechanisms include changing shift patterns by reducing an employee's total number of hours to keep their pay level the same, often with managers or salaried staff making up the deficit or employing cheaper workers. With an ever burgeoning cost centre, the pressure is on to keep a lid on wages bills as much as possible.
- A small majority of employers (57%) are also taking the decision to reduce staffing levels to deal with increasing costs. This is up from 45% in 2006 and 32% in 2004, suggesting that we are reaching the level beyond which employers will be able to either absorb or manage increases in cost and will therefore have no option but to reduce staffing. There is also evidence from survey returns that some will seek to reduce the number of outlets they manage or change their business model away from direct management at a retail level and towards a leased model where they manage the property and the lessee takes responsibility for staffing costs.
- It is interesting to note in this context that overall levels of employment within the distribution, hotel and restaurant sector – the Standard Industry Classification within which pubs and bars fall – has fallen significantly since 2005. As noted above, the impact of changes in the NMW take time to flow through into business practice, but there is evidence to suggest that this decline in employment may be in part due to the increase in NMW rates. Certainly trends in *ALMR* data would suggest that this is a factor in decisions about staffing numbers.
- These findings reveal that the NMW is not only continuing to have a very real impact on wage rates within the sector but also for the first time is significantly affecting broader business decisions and accounts for reduced profitability and employment across the sector as a whole. In the current economic climate, further changes should be introduced with care.

Future Increases

- Finally, respondents were asked what the impact on their total wage bill would be if the NMW was again increased by wage rate inflation in October 2009 and 2010. A 5% increase in wage rates over the 2 year period would result in an NMW of £6.32 by 2010.
- The results are set out below and comparison is given with responses to the same question in 2004 and 2006:

<i>Impact on Wage Bill</i>	<i>% Respondents agreeing 2004</i>	<i>% Respondents agreeing 2006</i>	<i>% Respondents agreeing 2008</i>
No change	3	0	0
Increased by 1-5%	51.5	25	63
Increased by 6-10%	37	60	39
Increased by 10+%	8.5	15	0



- The decision to peg future increases at wage rate inflation has alleviated, but not removed, fears of significant additional costs being passed down. Whilst the overwhelming majority of respondents believe that an inflation only increase will result in a small increase in the overall wage bill, a significant minority fear that the increase will have an impact over and above what might otherwise be expected. This is largely because the increase will coincide with the planned increase in annual paid leave and it is clear that for a sizeable proportion of the trade, this will effectively double the increase in costs.
- In light of Ministerial comments suggesting that increases in the NMW could be used to compensate for the removal of the 10p tax rate, we also asked about the impact of a 10% increase in NMW rates to £6.92 by 2010 – 10% felt this would increase wage bills by between 1-5%, 53% felt this would increase it by between 6-10% and 37% believed it would increase it by more than 10%. This could result in gross employment costs accounting for over a third of turnover by 2010.

Conclusion

When the NMW was first introduced, average rates of pay for bar staff were well above the headline NMW rate and any impact was restricted to areas of the country where the wage bill was low, or in terms of differentials. At the time it was introduced, the licensed retail sector was not widely held to be a low paid sector. The NMW is now more than 50% higher than it was when first introduced and has arguably achieved its objective in tackling poverty wages.

Successive swingeing increases in the NMW have resulted in a dramatic change in the status of bar staff. A larger proportion of bar staff are earning at or just above the NMW and there is a clear trend for the NMW to represent the average wage rate for the sector. This suggests that we have reached the 'tipping' point where the NMW ceases to be a mechanism for tackling low paying sectors and begins to have an impact on other industrial sectors.

The effects of this can be seen in the significant increase in employment costs as a result of the October 2007/8 increases in the NMW rate. Employment costs are now over 30% of turnover for the first time – an increase of some 23% since the last time the NMW was subject to full review. A further increase in 2009/10 could push wage costs beyond a third of turnover by 2010. Coupled with changes in annual leave will only exacerbate the impact on profits, prices and employment patterns already being seen within the sector.

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03/10/08



APPENDIX 1 – QUESTIONNAIRE

In the following questions, we are only looking for information in relation to basic barstaff and other employees who may be paid by the hour. Please exclude managers and head office staff from any calculation of average wage rates.

Name of company:	<input type="text"/>
No of managed outlets:	<input type="text"/>
Outlets mainly based	<input type="text"/> region

1. How many workers does your business currently employ:

Full Time Part Time Temp

2. For the following staff paid by hourly rate, what is the minimum, maximum and average rate of pay in your company:

	Minimum hourly rate	Maximum hourly rate	Average hourly rate
Bar staff	<input type="text"/>	<input type="text"/>	<input type="text"/>
Other hourly paid staff	<input type="text"/>	<input type="text"/>	<input type="text"/>

3. Do you have different pay rates linked to age?

Yes/No

3b. If 'yes' at what age does the adult rate apply

18 / 21 / other (please specify)

4. What proportion of your staff live in

4b. How much do you deduct for accommodation?

5a. Do you use tips to make up NMW payments?

Yes/No

5b. If 'yes' how many workers are affected

6. When do you review your pay rates?

7a. Has or will the forthcoming increase to £5.73 in October 2008 affect your rates of pay for your lowest paid staff?

Yes / No

7b. If 'yes', by how much?

£

7c. If 'yes', approximately how many workers were affected



8. Have the changes in the NMW since October 2007 led to any of the following business decisions – please tick all that apply:

	Yes	No
Increase in basic rates of pay		
Increase in rates of pay for higher grade staff		
Increase in rates of pay for more experienced staff in same job		
Overall reduction in staffing levels		
Changes to working hours or shifts		
Use of cheaper staff eg younger workers or less experienced staff		
Increase in prices		
Changes to total benefits package		
Reduced investment in business eg capital expenditure		
Use of migrant workers		
Reduction in profits		

9. Approximately what proportion of your total turnover is accounted for by gross employment costs (ie including PAYE and NIC)

Before October 2008 NMW increase? %

After October 2008 NMW increase? %

10. If the NMW increased by a further 5% or 10% in October 2009 and 2010, what would the impact be on your total wage bill (including impact on differentials?)

	5% increase to £6.32 by 2010	10% increase to £6.92 in 2010
No change		
Increased by between 1-5%		
Increased by between 6-10%		
Increased by more than 10%		

*Please provide any additional information or comments on a separate sheet
Thank you for your co-operation*