



## House of Lords Economic Affairs Committee Inquiry into UK Labour Supply

### A response from the British Retail Consortium 30 September 2022

#### About the British Retail Consortium

The British Retail Consortium (BRC)'s purpose is to make a positive difference in the retail industry and the customers it serves, today and in the future.

Retail is an exciting, dynamic, and diverse industry that is going through a period of profound change, accelerated by the pandemic. Consumer expectations continue to evolve, and technology is enabling retailers to respond, changing how people shop. Costs are increasing, and growth in consumer spending is slowing.

The BRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change, and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit.

Our membership comprises over 5,000 businesses, including physical retailers, online only and multichannel retailers operating across both channels, delivering £180bn of retail sales and employing over one and half million employees.

The UK retail industry generated £430bn (excluding fuel sales, and current prices) in sales in 2021, contributing 5% to the UK's output in the same year. Retail is the largest UK private employer: through nearly 315,000 separate enterprises, it provides about 3 million jobs amounting to 9.3% of the total number of jobs in the UK.

Retail is the largest employer in the UK, often providing the first step into the world of work. As an industry, retail welcomes those who may experience high levels of economic exclusion or who need flexibility in hours and location of their work.

#### **1. What are the recent trends in labour supply? How large are reductions in the size of the labour force?**

According to the latest [BRC Retail Jobs Report](#), in August 2022, there were 74% more job adverts in wholesale and retail compared to the pre-pandemic February 2020 period. In the UK as a whole, there were 13.8% more job adverts in August 2022 compared to February 2020.

Unsurprisingly, retailers have been reporting difficulties in recruitment for some time now. These shortages have been felt in a wide variety of roles, from shop floor staff to newly required digital skills to warehousing and distribution roles. In addition, retail has a less geographically mobile workforce as well as fewer employees highly skilled in digital and analytical skills.

Particular issues are reported by retailers operating in airports, and there is significant pressure on hourly wages in what some have referred to as "bidding wars" for employees. It is, undoubtedly, a candidate-led market.

Retailers have changed their strategies to try to attract and retain talent. Retailers looking to retain employees hired during the pandemic offered different financial rewards as a recognition for their employees' hard work, including bonuses and additional holiday days.

Other members sought to improve their recruitment process and invest in additional training such as key maths, English, and digital skills prior to someone taking on a job or apprenticeship.

In the last two years, over half of BRC members have increased the use of technology to address labour and skills shortages as well as rising employment costs. Retail is undergoing a significant period of transformation that is reshaping the industry in light of structural and technological change combined with financial and social pressures.

As the scale and location of the retail workforce evolves, the nature of jobs in retail is also changing. The distribution function is growing, new skills are required throughout the workforce and there are brand new jobs being created.

Members have experienced significant workforce challenges in the first eight months of 2022 and expect these trends to continue into the peak trading period. According to members, attrition has risen by 15%, while typical time to recruitment has extended by 25 days, which for some means that vacancies are higher than last year or any year prior. One member reported a rolling turnover of 60%.

However, it is difficult to quantify the precise level of shortages within retail. Considering vacancies posted by retailers, wholesalers, as well as logistical operators, there are potentially as many as 200,000 vacant jobs up and down the supply chain. The number employed in strictly the retail sector fell by 2.2%, just in 2021, a reduction of 67,000 jobs ([BRC Retail Jobs Report](#)). Given the sharper fall, over the previous year, and the smaller pool of labour from which to draw employees, recruitment has become increasingly difficult.

## 2. Which sectors and regions are most affected? Are the public and private sectors affected differently?

Within the retail industry between 2015 and 2020, employment rose most in the Northwest (5.7%) and West Midlands (1.3%) while Wales and the East Midlands saw the highest losses of retail jobs (-14.3% and -11.0%, respectively)<sup>1</sup>.

In the retail industry, attrition is very high, and, in some cases, members mentioned areas where it is double the typical rates. Anecdotally, the main reasons appear to be people moving out of the retail sector to office-based roles and changing jobs to enable more sociable hours with no weekend shifts. It is also understood that some older workers have reassessed their lives post-Covid and have left the business and the labour market entirely.

Members reported having had difficulty recruiting for temporary and part-time retail roles in the run-up to peak (October to December) last year, and we anticipate this year will also be challenging. With diminishing numbers of applications and increasing numbers of vacancies, there is a significant challenge for all retailers in attracting and recruiting enough candidates for their needs. Members have taken a range of steps to encourage candidates and fill labour gaps: from increasing base pay, offering bonuses, covering the cost of training and qualifications, introducing even more flexible working, and highlighting the wide range of career opportunities and potential for progression within retail.

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<sup>1</sup> [BRC Retail Jobs Report](#), September 2022

However, challenges still remain, and most members report that the total size of the current labour market is the biggest factor.

As we move into the peak commercial period, a large member mentioned needing extra resource requirement of as much as 10,000 retail workers. Another member informed us that over the next 8-10 weeks they need to recruit 3,000 permanent workers to fill vacancies in their stores, plus another 11,000 temporary workers for peak trading.

Given the ongoing tightening in the labour market, there is concern they simply won't fill these gaps despite offering good pay and conditions, and that could put at risk their ability to trade well through the all-important Christmas trading period.

In supply chain operations, there is a shortage of labour in warehouse and logistics roles. Members have seen a significant reduction in workers from the EEA working in supply chain operations over the past two years, with EU Exit and lifestyle changes (with candidates unwilling to undertake some roles/shifts) both having an impact on candidate availability.

Last year, the available labour pool for peak was insufficient, resulting in a loss of supply chain capacity. This year, despite substantial investment in technology and automation, and forward planning, members are expecting the challenge to be just as significant.

Where the industry previously relied on EEA candidates in the past, such as for temporary/agency roles in warehouses and transport, there are now more noticeable gaps during peak, when demand and competition are higher.

Another concern identified is driver availability, primarily drivers of HGVs, but also some lighter vehicles as well. Transport providers have increased pay rates to attract and retain drivers, whether that is subcontractors or agency staff. Last year, filling the gaps in the number of available drivers was a costly effort for retailers, with one member reporting an additional cost of £2.3m.

Due to the nature of their operations, some members have also raised concerns with the availability of professional occupations, especially pharmacists and pharmacy staff, as well as optometrists. Pharmacy workforce challenges have become so critical in the past few months that it is understood to have affected some companies' capacity to serve the public and trade in pharmacies, despite major investments, innovation, focus, and planning.

In terms of head office/support functions, there are key labour shortages in areas such as IT and Digital where there is strong competition across different industries, with some businesses willing to offer very high salaries to attract skilled people.

Of broader concern are the rising cost of living and the impact on the workforce in terms of what trends it will drive as inflation and energy costs increase into the autumn and winter. In particular, the impact on sickness absence and other considerations such as travel to and from work are not yet fully understood but are likely to add extra pressure.

In terms of regional variations, London and Southeast of England were particularly impacted, but also hotspots in the Southwest and other parts of the country

### 3. What factors are contributing to reductions in the size of the labour force?

A combination of several factors appears to have contributed to the considerable contraction in the labour force:

1. The UK's exit from the European Union and the resulting end of free movement.
2. The impact of the pandemic on working and social habits and behaviours, with profound changes about what workers think about employment.
3. A mismatch between the skill levels of candidates and the skills required for roles, especially digital skills.
4. An increase in the number of people who are long-term or temporarily sick.
5. An increase in travel costs to and from work

Looking specifically at the issue of the skills mismatch, the BRC has been calling for a review of the Apprenticeship Levy for a long period of time, and this is especially urgently needed now. Effective action would ensure those that have been economically inactive for long get work ready again, as well as ensuring the industry is able to bridge the skills gap for candidates that are available but aren't skilled enough for the roles.

A fit-for-purpose Apprenticeship System would also enable career progression and attract workers from all age groups, allowing businesses to upskill their workforce as necessary.

The BRC works extensively with over 170 members to support the creation of retail jobs which are more productive, higher paid, fit for the future, and more rewarding for the workforce. Apprenticeships are a key part of that journey and since 2017 many of our members have been subject to the Apprenticeship Levy. Members use those funds to support thousands of apprenticeships each year, both in their own businesses and in their supply chain, but we continue to advocate for key reforms which would enable much more effective utilisation of the funds, creating many more valuable positions.

The retail industry's levy contribution is significant; we estimate it to be at least £160m per year. However, much of that money goes unspent. As it stands, the levy represents just another form of tax on businesses, with well-resourced members mentioning only being able to use 34% of the levy funds they pay.

The make-up of the retail industry also makes it difficult to access levy funds – only about a third of retail workers are full-time employed, with the vast majority working hourly contracts.

We are calling for a reform of the Apprenticeship Levy, to allow the funds to be used for:

- Fund high-quality pre-employment courses to help potential apprentices reach the required level to begin a full apprenticeship.
- Allow apprenticeship funding to cover some costs associated with hiring an apprentice, for example covering the cost of back-filling roles while apprentices are on off-the-job training.
- Provide high-quality short courses, including functional and digital skills, to allow existing employees to upskill or transition to new roles, where a full apprenticeship is not necessary.
- Allow Levy-payers in Devolved nations to directly access the funds they are required to pay; the Levy in these Nations is effectively another employment tax, penalising businesses for employing workers.

#### 4. What effect are wage levels having on the supply of labour?

The pandemic has weighed on consumer-facing services activity, resulting in increased pressure on retail workers. Labour shortages have manifested in job roles such as HGV drivers, warehouse workers and hospitality. The retail industry responded by raising pay by double the national average in 2021, 5.5% compared to 2.7% for other sectors. ([BRC Retail Jobs Report](#), September 2022)

Retail pay has continued to rise in recent month, in response to the cost-of-living squeeze, and retailers are doing all they can within increasingly tight financial parameters to offer attractive salaries to potential recruits and existing colleagues.

Some members have reported that, since increasing base pay earlier this year, their recruitment challenges compared to 2021 have improved. However, concerns still remain that the rapid pace of inflation and significant cost pressures on households (as well as businesses) could outstrip wage growth, at least in real terms.

The cost-of-living impact on discretionary spending, and other business costs, such as rapidly increasing energy bills, rising global commodity prices, shipping costs, and a 10% increase in business rates bills next April will impact retailers' ability to continue raising wages.

**For queries related to this response, please contact:**

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