



ACS Briefing: Covid-19 Recovery Measures

This briefing outlines ACS' (the Association of Convenience Stores) policy proposals to support the retail and high street recovery as Covid-19 lockdown measures are eased. Further information about ACS is available at Annex A.

The convenience sector's 46,000 shops and 405,000 employees were deemed essential to the Covid-19 response and traded throughout the outbreak. However, the sector will continue to be essential after the outbreak, with a unique and important reach into communities from villages, neighbourhood parades and high streets across the country. It is important that government recognises the important role of convenience retailers by supporting them to invest and adapt their businesses to the benefit of these local communities.

ACS' policy recommendations to support the economic recovery in local shops are as follows:

- Extend the 100% business rates discount beyond 2020/21 and gradually taper the reintroduction of rates bills to avoid spikes in tax liabilities from undermining business recovery and investment.
- Support employment opportunities across the sector by extending the National Living Wage's target to reach two-thirds of median earnings beyond 2024 and reducing employer National Insurance Contributions.
- Expand the Retail Grant Fund threshold beyond £51,000 RV to ensure equitable support for the petrol forecourts and small shops in prime locations most affected by declines in footfall and trade.
- Recognise the operational challenges posed by cutting VAT by providing advance notice to retailers of any change, to be implemented away from busy trading periods. To stimulate consumer spending, a VAT cut should be sizeable and apply for an extended length of time.

For more information on this submission please contact Edward Woodall, ACS Government Relations Director, Edward.woodall@acs.org.uk or 07765034790.

Covid-19 Impact

The majority of local shops (66%) have seen an uplift in sales, but this sales increase runs in parallel with a significant increase in operating costs in order to provide store colleagues with the necessary PPE and become 'Covid-19 Secure'¹. Typical measures being undertaken include limiting the number of customers at any one time (90%), increasing hygiene measures (87%) and providing placing plastic screens at the till (60%)². It is important the Government accounts for these additional operating costs in its impact assessments for future policy deliberations.

The outbreak has not impacted all convenience stores equally; 26% have reported a large decrease in sales as many operate in city centres locations, transport hubs or petrol forecourts where they are reliant on transient customers³. These are the convenience stores most likely to have used the Government's Covid-19 employment and financial support schemes, but also the most likely to have been excluded from them by the thresholds and conditions applied.

Local shops have adapted quickly to changing consumer needs during the Covid-19 outbreak. Only 12% of convenience stores offered home delivery services prior to the outbreak⁴, which has now tripled to 38%⁵. This means local shops are providing over 600,000 home deliveries per week⁶. 83% of convenience retailers have also experienced supply issues during the outbreak, meaning they had to work hard to maintain supply to consumers, often on lower operating margins⁷.

Support Measures

The most relevant support measures for the convenience sector have been the business rates holiday and the small business and retail cash grants. Almost all independent retailers are expected to benefit from the cash grants, which comprises 72% of the convenience sector⁸. Use of the Job Retention Scheme and the Coronavirus Business Interruption Loan Scheme has been limited as most retailers continued trading throughout the outbreak.

VAT

Cut Headline Rate of VAT

For a cut in the headline rate of VAT to effectively stimulate consumer spending, that cut must be sizeable and apply for an extended period of time, a year at a minimum. A cut to the headline rate of VAT would have to be delivered in a timely manner and implemented as far

¹ ACS Covid-19 Impact Survey: May 2020

² ACS Covid-19 Impact Survey: May 2020

³ ACS Covid-19 Impact Survey: May 2020

⁴ ACS Local Shop Report 2019

⁵ ACS Covid-19 Impact Survey: May 2020

⁶ ACS Covid-19 Impact Survey: May 2020

⁷ ACS Covid-19 Impact Survey: May 2020

⁸ ACS Local Shop Report 2019

away as possible from the busy Christmas period to allow retailers the operational time required to change their prices and supply chain procedures.

There is a trade-off here between consumer stimulus and the operational challenges of delivering a VAT cut. If the headline VAT rate is cut retailers will have change prices and signage on thousands of products lines, potentially at short notice. Even for businesses with centralised IT systems this will be a significant challenge. Our evidence suggests that the most common pricing methods in stores are price marked packs, printed shelf edge labels and price stickers on products⁹. For all three pricing methods sufficient lead time is needed to sell through stock or manually amend prices. We urge the Government to provide retailers with early warning of a VAT cut to reduce the operational impacts of pricing changes and avoid changes at peak retailing periods.

Zero VAT Rating Some Products

Depending on the mechanism for the zero rating of the products, we would welcome removing the application of VAT to some categories. However, if government acts in this area it must be clear what products are in scope and what businesses can benefit. Current VAT notices on food and drink distinguish between product categories and business outlets. For example, restaurants must charge VAT on everything eaten on their premises, but VAT is not applicable on cold food takeaway.

In recent years, there has been a merging of food service and retail businesses with many businesses offering eat-in and takeaway concessions. In the convenience sector, 23% of stores have hot food counters or cabinets, 22% have a food takeaway area and 15% have seating areas¹⁰. The Government must be clear how the zero rating of some products will work across different outlets and show equity in their approach, instead of basing the zero rate purely on the primacy of business operations.

Extend VAT Deferral

We have welcomed the Government's decision to extend the VAT deferral during the outbreak and would welcome a further deferral. We would urge the Treasury and HMRC to consider if any further dispensation can be given on the time periods for submitting their VAT returns or the penalties for not submitting returns in light of the exceptional circumstances that many convenience retailers find themselves in. The outbreak has aligned with the transition to Making Tax Digital, requiring retail businesses to introduce new online reporting processes and submit VAT updates quarterly. Extending Making Tax Digital to other taxes should not be considered until after the pandemic.

Business Rates & Cash Grants

The business rates holiday, Retail Grant Fund and Small Business Grant Fund have been the most important support measures for the convenience sector¹¹. The business rates

⁹ ACS Voice of Local Shop Survey: February 2020

¹⁰ ACS Local Shop Report 2019

¹¹ ACS Covid-19 Impact Survey: May 2020

holiday has automatically reduced business rate bills for all retailers, releasing capital to continue to operate their businesses during the outbreak and offset some additional operating costs.

We want to see these business rate reliefs extended and their eventual removal tapered to avoid huge spikes in tax liabilities. We also urge the Government to accelerate the announced review of the business rates system to deliver meaningful and lasting change for bricks and mortar retailers to incentivise investment and support access to essential local services.

Increasing the £51,000 RV Threshold for Cash Grants

The £51,000 RV threshold for the Retail Grant Fund has supported many retailers, but effectively excluded local shops operating on petrol forecourts despite providing the same essential goods and services for their communities. Local shops on petrol forecourts or prime city centre locations have been hardest hit across the sector, as lockdown measures have reduced public transport and road traffic levels, which have in turn impacted footfall to stores and fuel sales.

Most petrol forecourts in the UK will have rateable values above £51,000 RV due to the turnover-based rating methodology used to calculate business rates for these premises. We would like to see the Government increase the £51,000 RV threshold to allow more local shops on petrol forecourts to benefit from the cash grants or specifically recognise petrol forecourts as eligible for the retail cash grants scheme.

Extend and Taper the Business Rates Holiday

The business rates holiday must be extended beyond 2020/21 date to enable businesses more time to adjust to new trading patterns and operating models. In the meantime, the Government should seek to conclude the initial phase of its business rates review and bring forward clear proposals about how the business rates system could be reformed and a timetable for further consultation if necessary.

The impact of the outbreak has yet to be fully realised and reintroducing full business rates bills too early would hamper retailers' capacity to respond. The reintroduction of rates bills should be gradually tapered to avoid a huge spike in tax liabilities and negative impact on cash flow.

Accounting for the Digital Economy in the Tax System

The imbalance in taxes paid between retailers supporting local high streets and online-based business models has been further highlighted by Covid-19. We agree that business rates should remain a property-based tax, but it is right that the Government considers options to ensure the burden of business rates is shared fairly amongst all types of retail. This includes exploring the idea of an online sales levy which funds reductions in bills for bricks and mortar retailers or a bespoke rating methodology for the physical property of online retailers based on turnover, which could be similar to the rating models used for pubs, petrol stations and ATMs.

Employment

Low Pay Commission Remit

The Government must carefully review the Low Pay Commission's remit to deliver a National Living Wage at two-thirds of median earnings by 2024. The Low Pay Commission's remit has always been 'subject to sustained economic growth' and now contains an emergency brake mechanism in the event of 'emerging risks'. Covid-19 has clearly initiated significant economic risks for the labour market.

The Low Pay Commission has already indicated in its latest published research that: "The ongoing Covid-19 pandemic clearly represents a very challenging set of circumstances for workers and employers alike, and will require us to review whether an emergency brake is required"¹². The Government should monitor this closely and work with the Low Pay Commission to extend the two-thirds of median earnings target beyond 2024.

ACS' evidence to the Low Pay Commission has shown that businesses are delaying business investments and reducing working hours in their business as a direct result of increases in the National Living Wage¹³. Retailers are now also considering how to bluntly flatten staffing structures and squeeze pay differentials, despite the negative impact on progression opportunities within the sector for workers pursuing long-term careers.

Cutting Employer NICs

We welcome the suggestion of a cut to Employer NICs to reduce the cost of employment. In ACS' 2020 Budget submission we called for the Chancellor to increase the starting threshold for Employer NICs to mitigate the impact of rising statutory wage rates. Increasing the payment threshold for Employer NICs would result in more meaningful year-on-year savings for local shops than an increase to the Employment Allowance. The table below outlines the impact that increases in the employment allowance to £4,000 will have, as well as an extension of the thresholds for payment of Employer NICs on the sector wage bill. The table does not account for changes in employment levels or productivity but demonstrates that wage bills continue to increase considerably even with increases to the employment allowance and Employer NICs thresholds.

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
	<i>NIC Threshold - Over £166.01. Employment allowance - £3000</i>	<i>NIC Threshold - Over £261.6 (NLW at £8.72)</i>	<i>NIC Threshold - Over £275.1 (NLW at £9.17)</i>	<i>NIC Threshold - Over £288.3 (NLW at £9.61)</i>	<i>NIC Threshold - Over £301.8 (NLW at £10.06)</i>	<i>NIC Threshold - Over £315 (NLW at £10.50)</i>
Total sector wage bill by	£3,449,376,653	£3,661,782,819	£3,848,651,323	£4,035,519,827	£4,222,388,331	£4,409,256,835
Benefit of Employment	£98,089,660	£130,786,213	£130,786,213	£130,786,213	£130,786,213	£130,786,213
Benefit of increasing the Employer NICs threshold	-	£155,112,716	£163,028,446	£170,944,175	£178,859,904	£186,775,633
Net benefit Employment Allowance and Employer NICs	£98,089,660	£285,898,930	£293,814,659	£301,730,388	£309,646,117	£317,561,847
Total wage bill - net benefits	£3,351,286,993	£3,375,883,889	£3,554,836,664	£3,733,789,439	£3,912,742,213	£4,091,694,988

The increase in the starting thresholds for Employer NICs makes a greater impact on the sector's wage bill as it increases in parallel with wage rates. We believe that savings from

¹² [National Minimum Wage in 2020](#) Low Pay Commission. April 2020

¹³ ACS National Living Wage Survey 2020

Employer NICs would enable many local shops to increase store investments and investments into new store services.

Employer NICs holiday for new staff

We would welcome an employer NICs holiday to incentivise recruitment in the convenience sector. Many retailers took on new staff on a temporary basis at the beginning of the outbreak to fulfil consumer demand, although most of these temporary jobs are now ending. An employer NICs holiday would create some savings for retailers.

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Annex A

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 46,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.



WHO WE REPRESENT

INDEPENDENT RETAILERS



ACS represents over 19,000 independent retailers, polling them quarterly to hear their views and experiences which are used to feed in to Government policy discussions.

These stores are not affiliated to any group, and are often family businesses with low staff and property costs. Independent forecourt operators are included in this category.

SYMBOL GROUPS AND FRANCHISES



ACS represents over 14,000 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents over 12,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR



In 2018, the total value of sales in the convenience sector was £39.1bn.

The average spend in a typical convenience store transaction is £6.50.



There are 46,262 convenience stores in mainland UK. 72% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 365,000 people.

24% of independent/symbol stores employ family members only.



24% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

70% of business owners are first time investors in the sector.



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

81% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2017 and May 2018, the convenience sector invested over £814m in stores.

The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1,200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of over 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 7,669 stores. The Local Shop Report also draws on data from HIM, IGD, Nielsen and William Reed.

BESPOKE POLLING ON POLICY ISSUES

ACS conducts bespoke polling of its members on a range of policy issues, from crime and responsible retailing to low pay and taxation. This polling is conducted with retailers from all areas of the convenience sector.

For more information and data sources, visit www.acs.org.uk