

9<sup>th</sup> March 2010

Rt Hon Alistair Darling  
Chancellor of the Exchequer  
1 Horse Guards Road  
London  
SW1A 2HQ

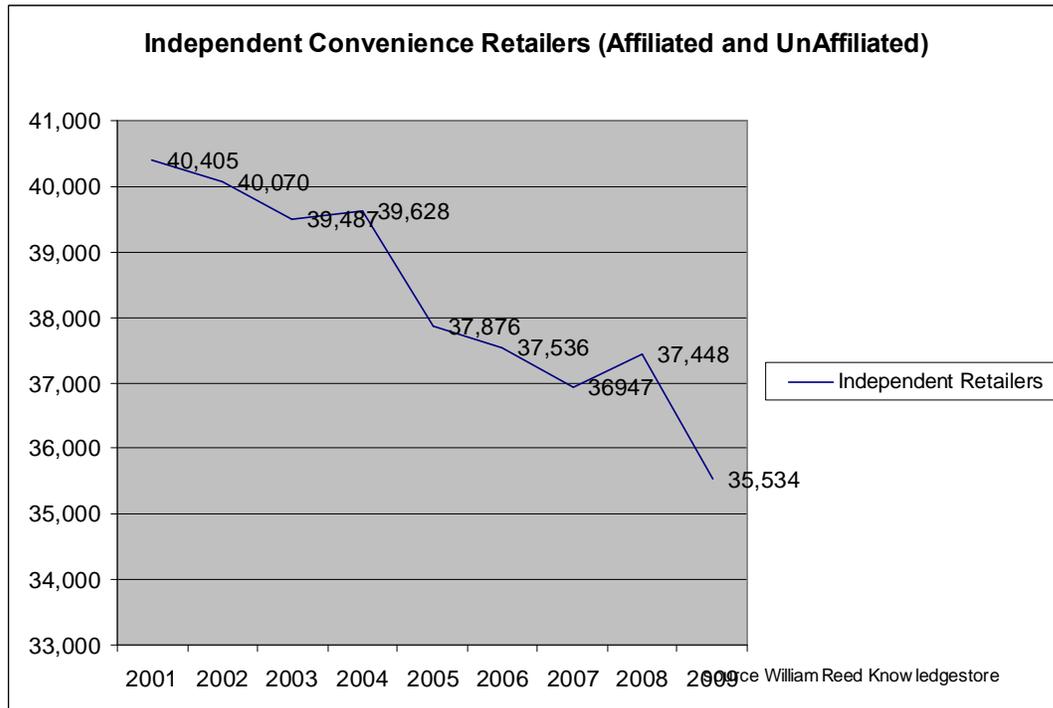
Dear Chancellor,

ACS (the Association of Convenience Stores) represents over 33,500 local shops throughout the UK; the sector employs an estimated 400,000 people. Decisions made in the Budget will be crucial to our members businesses and the people they employ. In this submission we seek to provide an overview of the convenience store sector and the challenges it has been facing and is likely to face over the coming year.

Our sector has shown signs of strength in spite of the economic downturn, reflected in a number of companies in our sector returning strong sales performance. The tightening of household budgets has in part led people to eat and socialize more at home and this has increased spending on groceries for the household. Also in some communities the closer attention to weekly spending and a shift to controlling spending through using only cash has meant people shopping closer to home and more frequently, as opposed to large weekly shops at supermarkets.

This increase in sales has in many cases been at the expense of margins as the consumer and competitive pressure has meant that a greater proportion of sales are of items on promotion.

This does not mean that there are not intense pressures on businesses in our sector. Strong performance has not been universal and the year on year decline in store numbers continues as the graph below displays:



In many cases this is due to the same factors causing malaise on the high street generally. Recent figures identify that 12.4 per cent of shops stood empty across Britain. This represents a 25 per cent increase on previous figures.<sup>1</sup>

## **Duty Rates**

The adjustment of the VAT rate in 2008 meant an increase in the duty rates placed on alcohol and tobacco to prevent a cost reduction. The Pre Budget Report did not rebalance this to account for the increase in VAT to 17.5 per cent.

The impact of present duty increases on alcohol and tobacco products will expand the billion pound illegal market. HMRC statistics back up this trend, one in every eight bottles of alcohol were smuggled into the UK in December 2008. Furthermore, one out of every six cigarettes . 11 billion out 64 billion . was smuggled into the UK. This means that the Exchequer is losing more than £1 billion a year in loss of duty.

Retailers adhere to a strict legal framework for the sale of age restricted items. However, the illicit trade is indiscriminate in its supply to young and vulnerable groups. The continual rise in the costs of alcohol and tobacco will drive consumers to purchase illegal products. This in turn will lead to lower tax revenue for the government and the inability to track consumption of these product and their health implications.

HMRC figures show that increased duty rates have meant an expansion in the illegal market. However, retailers who continue to deliver these products responsibly lose out. ACS therefore recommends a freeze on duty rates for this Budget.

## **VAT**

Many retailers have had to absorb the increases in VAT as a result of the poorly timed return to the 17.5 per cent rate at the beginning of the year. Differentiating the rate of VAT has not been a successful fiscal exercise and the short term gains of the decrease were grossly out weighed by the cost of the increases.

Speculation surrounding future Government proposals to increase VAT is of great concern too. Consumer confidence is only just stabilizing and the outlook for the national recovery remains uncertain. If VAT is increased in line with European levels to 20 per cent this would further squeeze the tight margins that already exist for retailers and reduce consumer spending.

Moreover there would be similar cost implications incurred by retailers as laid out in our pre Budget submission. There are 1600 lines that are liable for VAT in an average convenience store, which meant extra staffing hours was required to change labels, update computer systems and investment in staff training and customer relations.

ACS opposes any future increases in the VAT rate. In our sector we believe the impacts of VAT changes are asymmetric. Whilst the impact of VAT decreases was negligible, any upward pressure on prices hits sales and demand. The tendency is to absorb VAT in the short term is not possible for SMEs and therefore the impact on reduced custom hits the smallest companies hardest.

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<sup>1</sup> Local Data Company ó End of Year Report 2009 ó Dawn of a better market!

## **Employment Costs**

Increasing employment costs continue to be of great concern to retailers. Recent research showed that upcoming employment costs will amount to £25.6 billion for employers<sup>2</sup>. This figure includes the cost of the Equalities Bill, the Agency Workers Directive and Pension Reforms included in the Pensions Act 2008.

Burdening employers by adding costs to creating jobs is counter intuitive at a time when unemployment is rising. Small businesses, like local shops, represent 90 per cent of all business in the UK, they continue to support job creation and provide flexible employment locally.

### *National Minimum Wage*

Local shops rely heavily on the staff they employ to make them successful and as a result we support the concept of a national minimum wage. It is a significant concern that retailers in many parts of the country have found that over the period since the wage was introduced in 1998, minimum wage employers have become unable to pay above this level. This is a direct result of the 60% increase in the wage level over that period, while more recent increases have had a direct impact on retailer wage bills.

ACS's latest submission to the Low Pay Commission conveys the detrimental impact that increases in National Minimum Wage (NMW) have had on convenience stores. Negative impacts include reducing staffing hours, the inability to employ new staff, the negative effect on pay structures and in some instances lay-offs.

We are very concerned by the recent Prime Ministerial commitment to increase NMW every year for the next five years. We take very seriously our role as a stakeholder in the Low Pay Commission's process and we are concerned that this political commitment prejudices that process. In 2010/11 there should be no increase in the minimum wage, this would be the prudent and responsible recommendation of the Commission, which if made should be accepted by Government.

### *National Insurance Contributions*

ACS understands the pressing need to raise revenue in coming years. We disagree that increases in National Insurance are the way to achieve this. The proposed increase of 1 per cent in 2011 should be reconsidered.

ACS believes that businesses need the confidence to create jobs and expand their businesses. Raising National Insurance Contributions will reduce businesses ability and inclination to do this. The increasing cost of employment across the boards means that retailers have no choice but to reduce staff and hours. In the near future retailers will have to pay for pensions reforms, higher entitlement rights for staff and added benefits for agency workers.

The 1 per cent increase in National Insurance Contributions amounts to a tax on jobs. This decision must be revised.

## **Business Rates**

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<sup>2</sup> British Chamber of Commerce ó Employment Legislation: Holding back recovery?

ACS raised concerns in our pre budget submission regarding the impact of the 2010 rates revaluation, released in October 2009. The 2010 revaluation is based on figures from 2008; it is undeniable that figures for 2008 will not reflect rental value or profitability for the five years that this revaluation will encompass.

We understand that the revaluation does not raise any further funds for the Government, and solely exists to rebalance relative rental values. Taking this into consideration the Governments intention should be to focus on the businesses that have suffered the greatest increases as a result of any rate revaluation.

We have supported the Governments five year transitional rate relief scheme. The scheme represents the fairest way of phasing in increases without disproportionately hampering a particular sector. However, there remain flaws in the system.

A particular concern is the limitations of the small business rates relief scheme, which could easily be developed in a way that would support more businesses. At present over half of all small businesses that are eligible for small business rates relief (SBRR) do not claim this relief. Whether this is the result of the complexities of the system or lack of knowledge about relief we believe that local shops would greatly benefit from SBRR becoming automatic. Furthermore the threshold for SBRR is not high enough to include many convenience stores. We recommend that SBRR be increased to include those stores with a ratable value of up to £22,000. Many local shops fall just outside of the current £18,000 bracket and would be greatly aided by this extension.

The retailers that have been hardest hit in our sector, and arguably within the entire revaluation, are convenience store businesses trading on petrol forecourts. These retailers have seen dramatic increases in ratable value. The increases are the result of the rating system that the Valuation Office Agency (VOA) has used to rate petrol forecourts and on site shops. ACS and the Retail Motor Industry have been in discussion with the VOA to address the irregularities in the system.

The rating system that the VOA has used causes difficulties in three areas:

#### Shop Valuation:

Due to increased fuel cost over the past ten years forecourt retailers revenue has predominately come from on site shops. However, the VOA's rating scheme for forecourt shops is different, and will result in a competitive impairment for forecourt retailers.

Stand alone convenience stores are rated using the zoning method. This method divides a shop into sections according to their commercial value and gives an overall ratable value for the store. Forecourt shops have not been rated using this scheme, instead they have been rated according to their turnover. This has resulted in a clear commercial disadvantage for forecourts, there are many instances of stores in close proximity and similar size having huge disparity in ratable value simply because one store has a petrol forecourt.

#### Fuel Margins:

As it stands it is clear that the VOA is taking evidence of the average margin available to hypermarket stores and applying to businesses of all types. This is not accurate

reflection of the industry. These prices can not be applied to independent forecourt retailer sites due smaller turnover and increased competition in the industry. We are recommending that a banding system is introduced for calculating fuel margins for forecourt retailers. This banding system will work in relation to their overall volume for the site.

**Car Wash:**

The VOA are using a system where by they take 20 per cent of car wash turnover. We believe that this should be reduced do to the high number of hand carwash that have been developed and are not rated in this way. The car wash industry cannot be sustained at this level. We would like to see this rate halved.

ACS believes that the conveniences sector can play a valuable role in supporting the nation's economic recovery. We sit at the heart of the communities across the country and need support to sustain the valuable service we provide communities with. Our most pressing concerns remain focused on employment costs. Above inflation costs in national minimum wage and higher national insurance contributions need to be addressed.

ACS makes the following recommendations for the Chancellor to consider:

- Freeze the duty rates on Alcohol and Tobacco products.
- VAT must be frozen at its current rate for a sustained period during the recovery.
- National Minimum Wage must be frozen at its current rate. The Government must refrain from making commitments on National Minimum Wage until the Low Pay Commission have made their recommendations.
- Reconsider the increase in National Insurance Contributions, which is essential a tax on jobs.
- Thresholds for Small Business Rates Relief are increased and the Valuation Office Agency's rating scheme for Forecourt Retailers is reconsidered.

We would welcome the chance to provide further information as appropriate.

Yours sincerely,

James Lowman  
Chief Executive