



## **SUBMISSION OF ACS TO THE TREASURY**

### **BUDGET 2012**

ACS (the Association of Convenience Stores) represents 33,500 local shops (Annex1). These businesses are crucially important in bringing economic recovery into communities throughout the UK. In the Budget the Government has the opportunity to reduce financial burdens on business and put in place meaningful incentives that will encourage growth and job creation.

The convenience store sector, which makes up a quarter of the UK retail grocery market, is under significant pressure. This pressure does not come from declining sales, in fact the market measured by sales grew at 3.4% in 2011, but sales growth has not equated to general increases in profitability.

The largest retailers, especially the supermarket companies, have struggled to maintain their sales and profits and as a consequence focused on heavily marketed discount strategies. This has a knock on effect on smaller retailers, who are under pressure to meet consumer expectations, but they do not have the same leverage over suppliers to offset the impact of discounting on margins.

Retailers also continue to face pressures of increasing costs both in terms of operational overheads (cost of staff, energy prices and rent and rate bills) and squeeze on credit in the form of reduced availability of business lending and increased costs on standing credit such as overdrafts.

ACS remains committed to working with Government to achieve the fiscal and regulatory framework that will incentivise the growth that is vital to the economic recovery.

## **Executive Summary**

### **Economic and Industry Context**

- ACS' Voice of Local Shops survey<sup>1</sup> - Headline findings:
  - 61% of independent retailers have seen sales decrease in the past three months compared to last year
  - 68% of all retailers have seen their paid staff hours remain the same. Only 6% have increased their hours.
  - 64% of retailers have no investment plans in the next year
  - The three biggest obstacles to success, in order, are The Economy, Competition in the Market and Business Rates

### **Business Rates**

- ACS recommends the introduction of a cap on annual business rates increases, starting immediately, for the duration of this Parliament in line with the Government's inflation target of 2%.
- The introduction of this cap will mitigate the impact of the planned 5.6% increase, which is based on a spike in inflation and bears no correlation to future inflation rates.
- A 2% cap will provide business with relief from a spike inflation, certainty on future rates and the confidence to create jobs and growth.

### **Employment**

- ACS recommends a freeze in the National Minimum Wage at least until the economy returns to healthy growth.
- Changes to the Working Time Regulations would constitute significant discrimination against small business owners. The Government's response to the Modern Workplace consultation should make special allowances for small business in relation to flexible working and holiday entitlement carry over.

### **Alcohol and Tobacco Duty**

- ACS recommends the introduction of Duty Stamps on beer.
- ACS recommends a more proactive approach from HMRC to investigate irregular and unsustainable pricing in the supply chain.
- ACS recommends the introduction of a licensing/ registration scheme for wholesalers.
- ACS recommends a new focus on enforcement priorities, agency responsibilities and sentencing aiming to recoup 50% of the revenue lost to alcohol and tobacco duty fraud
- ACS also recommend that penalties for bootlegging tobacco or alcohol to be brought into line with those for dealing Class C drugs.

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<sup>1</sup> ACS' Voice of Local Shops survey is a quarterly telephone interview with independent and symbol group convenience retailers asking them question on a range issues including sales, profit, staff hours, confidence and views on the Chancellor management of the economy. The Voice of Local Shop survey is available in full at Annex 2.

## **Lending**

- ACS believes that banks should be encouraged to reduce the barriers to lending for entrepreneurs, specifically to focus lending guarantees on existing assets of a business not personal collateral.
- ACS recommends that the Government encourages lenders to adopt the same property valuations mechanism when assessing loan applications as local authorities do when setting business rates.

## **VAT**

- ACS recommends that the Chancellor takes action as soon as possible to reduce the rate of VAT back to 17.5%.

## **Fuel**

- ACS urges the Government not to increase fuel duty in August 2012.

## **Reducing Regulatory Burdens**

- ACS recommends the Government continue momentum on the work of the Business Regulation Delivery Office in simplifying age restricted sales laws and extending the scope of Primary Authority.

## Economic and Industry Context

The UK economy's growth has continued to stall in 2011. The true bite of the downturn has been felt more by consumers and retailers in the aftermath of the recession. Inflation remains high with RPI at 5.2%, food inflation at 5% and fuel costs continuing to increase. This has put pressures on consumers' disposable income and they are managing their money more closely. The ASDA income tracker shows unprecedented declines of household disposable income. Families were 8%<sup>2</sup> worse off in May 2011 than May 2010.

The Government has put in place a range of initiatives targeted at generating growth in the private sector. These include business enterprise zones, reductions in corporation tax, and small business rates relief. However, businesses continue to fail, insolvencies increased in the second quarter of 2011 by 2.7% on the previous quarter, and 4.4% on the same period in 2010<sup>3</sup>.

Tough trading environments have meant small businesses lack the confidence to continue employing at the same level. The UK unemployment rate remains high at 7.7% and the average weekly earnings between Q1 and Q2 grew only very slightly by 0.1%<sup>4</sup>.

The retail sector has grown slowly post recession and margins remain tight for both large and small retailers. This has been especially prevalent for businesses trading on the high street. Retail sales for 2011 compared with 2010 have not grown at all when inflation is taken into account.

This has had a knock on effect on our high streets. The chart below shows the continual increase of high street vacancy rates since 2008. Most convenience stores in the UK will trade in town centres or on secondary high streets - UK high streets vacancy rates have rocketed since the recession hit. In 2008 vacancy rates were at 5%, UK vacancy rates now stand at 14.3%.<sup>5</sup>

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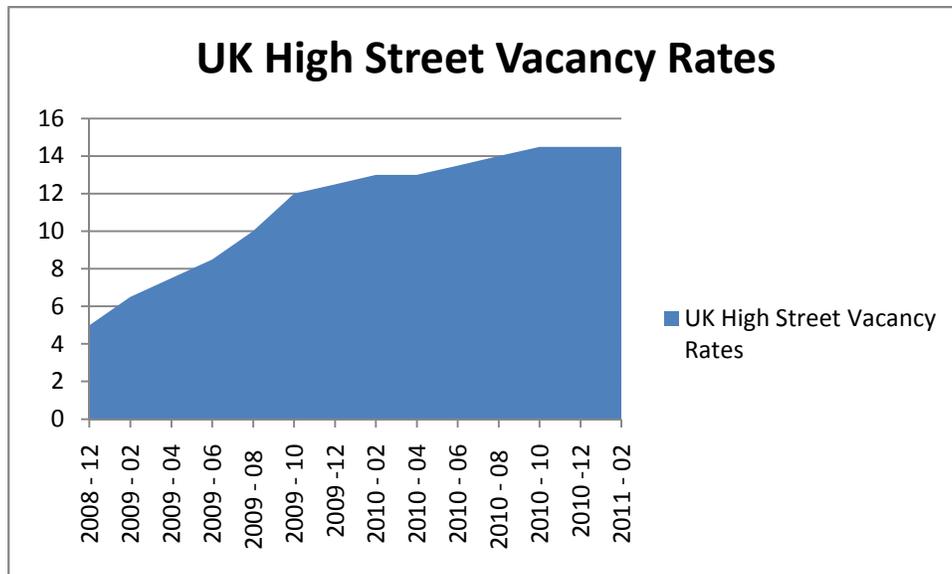
<sup>2</sup> [http://your.asda.com/assets/attachments/25364/original/Income\\_tracker\\_report\\_June\\_2011.pdf](http://your.asda.com/assets/attachments/25364/original/Income_tracker_report_June_2011.pdf)

<sup>3</sup> Insolvency Service Statistics Q2 2011

<http://www.insolvencydirect.bis.gov.uk/otherinformation/statistics/201108/index.htm>

<sup>4</sup> ONS Key figures April 2011 <http://www.ons.gov.uk/ons/key-figures/index.html>

<sup>5</sup> Local Data Company Report February 2012



This decline has been driven by a combination of consumer demands and the continuous growth in businesses overheads, the greatest of which are employment costs. Other costs continue to catch up with retailers such as business rates, rents and energy costs which further hamper businesses from trading competitively. The decline on high streets has become so endemic that Government undertook an independent high street review led by Mary Portas<sup>6</sup>. ACS supports the Mary Portas high street review and many of the recommendations therein, with particular regard to planning policy.

### Consumer Confidence

Consumer confidence remains low leading to reduced consumer spending. 81% of retailers surveyed said that consumers were spending less.<sup>7</sup> Like for like sales were down by a range of between 2% and 10%.<sup>8</sup> Consumers continue to manage their costs more carefully moving towards promotional items and away from impulse buying. ACS most recent survey shows that 61% of independent retailers believe that their sales<sup>9</sup> have declined in the first three months of 2012 compared with 2011. This influences retailers' margin and bottom line profits, with small basket spends on lower margin items. Convenience stores are by no means recession proof but they have been more resilient to the decline than other sectors.

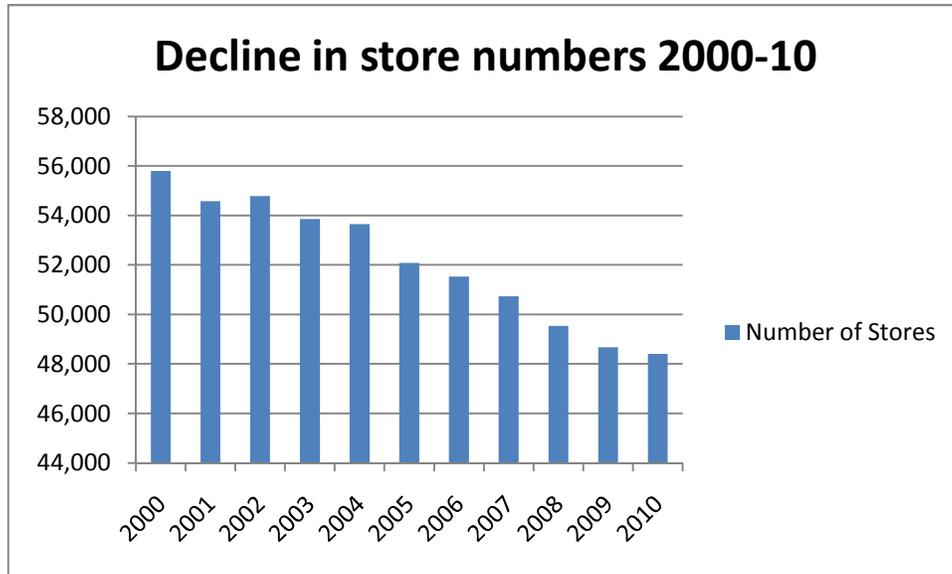
The chart below shows the continual decline of convenience stores across the UK. There are 48,410 convenience stores in the UK, a figure that declined by 0.5% year on year since 2000.

<sup>6</sup> <http://www.bis.gov.uk/highstreet>

<sup>7</sup> ACS NMW Survey 2011

<sup>8</sup> ACS NMW Survey 2011

<sup>9</sup> ACS Voice of Local Shops Survey



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Whilst in general the food retail sector has maintained sales and customer footfall during the recession there has been a necessary shift to lower prices and introduce more promotions as consumers look for greater value<sup>11</sup>. For example currently 39% of products purchased in the grocery sector are bought 'on promotion.' The pressure to reduce prices and increase promotions to sustain turnover has occurred at the expense of profitable margins. This pressure has increased the ever present need for cost reduction to maintain a business.

### Access to Credit

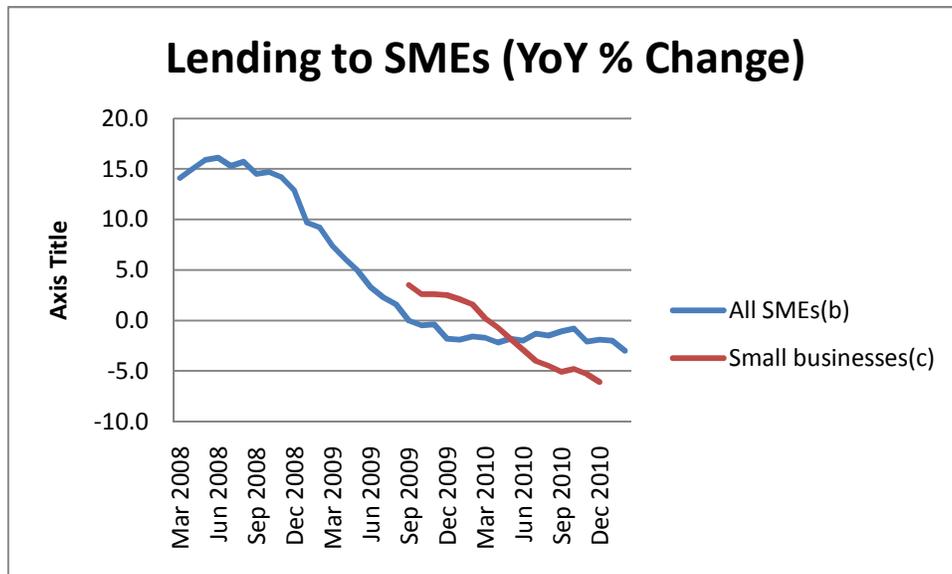
Access to credit still remains a problem for small business despite Government initiatives, such as Project Merlin, to deliver access to finance. Convenience stores are dependent on maintaining a high cash flow to maintain stock levels across a range of goods for consumers to benefit.

The chart below identifies the decline in credit available to small businesses from high street banks. Retailers are also suffering from increased bank charges for overdrafts and banking costs. 56% of survey respondents said their access to credit through loans or overdrafts have been restricted over the last year. However, 70% of respondents said they had no issues accessing credit from suppliers<sup>12</sup>.

<sup>10</sup> IGD Convenience Retailing 2010 – Sector Trends

<sup>11</sup> IGD Convenience Retailing 2010 – Sector Trends

<sup>12</sup> [ACS National Minimum Wage Survey 2011](#)



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88% of respondents said that the recession has impacted on their banking costs. These costs often represent more direct problems for retailers as increased bank charges or the inability to extend an overdraft affects the day to day running of their business. 64% of retailers said they had no investment plans in the next year.

## Policy Recommendations

### Business Rates

Prior to the Autumn Financial Statement, ACS provided evidence to the Treasury on the impact of the 2012 annual business rates increase. The increase, based on September's RPI Inflation rate, was 5.6%. ACS outlined the negative impact that this increase would have on our members' ability to employ staff, expand their businesses and in some cases continue trading. ACS' recent survey reflects that business rates are the third biggest obstacle to success, second only to the economic downturn and pressure of competition in the market<sup>14</sup>.

ACS [welcomed](#) the Chancellor's actions in the Autumn Financial Statement to allow businesses to defer 60% of the annual increase. However, a deferral is not enough to generate the necessary confidence to encourage pro-growth decisions. The Government estimates that the deferral scheme will only support 10% of business<sup>15</sup>. We believe that more can be done. The Chancellor should consider reducing this annual increase in line with the Government's inflation target of 2%. ACS believes this would provide real help and stimulate greater confidence, especially in the small business community.

<sup>13</sup>Trends in Lending, Bank of England, April 2011, pg 7

<http://www.bankofengland.co.uk/publications/other/monetary/TrendsApril11.pdf>

<sup>14</sup> ACS Voice of Local Shops survey – Annex 2

<sup>15</sup> Autumn Statement 2011 Policy Costings based on the uptake in the 2009 scheme

Immediate action is required to bolster business confidence, encourage business to make investments, take on staff and go for growth. Reducing business rates in line with the 2% inflation target is the right answer for the short term. Government should also consider how rates policy can be permanently reformed.

ACS recommends that a new framework for setting business rates is defined. This should end the unhelpful link between RPI and rates levels, and be based on a more sophisticated analysis of inflationary and economic pressures.

There are a number of options available to the Government that are worth consideration. We urge the Government to undertake a formal consultation on setting the annual business rates level with aim of providing businesses with greater certainty on future rates.

## **Employment Cost**

Employment costs remain the largest overhead cost for retailers, equating between 40 and 50% of a stores budget. Employment costs continue to increase on all fronts, including national minimum wage, automatic enrolment pension contributions, changes to maternity and paternity leave and other potential changes to the Working Time Directive. Members often reflect that the Government does not consider the cumulative impact of employment cost on businesses ability to invest and grow. Figures show that only 6% of convenience retailers have increase their staff hours in the last year – 68% of retailers staffing level have stagnated.<sup>16</sup>

### *National Minimum Wage*

The National Minimum Wage remains the number one concern for retailers. The relentless increase in the minimum wage rate since its introduction has had detrimental effects on employment structures in the retail sector and beyond. ACS provided evidence to the Low Pay Commission on the impact of the minimum wage increase. We have recommended that Low Pay Commission strongly consider freezing the national minimum wage for 2012-13.

Evidence from our members showed that minimum wage increases had significantly influenced employment and investment decisions. ACS' National Minimum Wage survey 2011<sup>17</sup> showed a reduction in staff numbers and hours worked:

- 80% of respondents reported having to cut back on staff hours; compared to 50% in 2010
- 74% reported a negative impact on store expansion plans; compared to 54% in 2010
- 85% reported a negative impact on pay structures, compared to 53% in 2010
- 81% believe the increase has made their business less competitive, compared to 50% on 2010

ACS recommends a freeze in the National Minimum Wage at least until the economy returns to healthy growth. On this basis ACS recommends that the Government considers carefully any recommendation by the Low Pay Commission to increase the rate.

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<sup>16</sup> Voice of Local Shops Survey

<sup>17</sup> [ACS National Minimum Wage Survey 2011](#)

## *Pensions*

ACS welcomes the Government's decision to delay the implementation of the Automatic Enrolment pension contributions until 2015. In the current economic climate retailers and employees would have struggled to meet these contributions.

Retailers remained concerned about the cost and administrative burdens that auto enrolment will cause on top of existing employment costs. It is likely that the introduction of auto enrolment will move more small employers to employ more part time staff for reduced hours to avoid the contributions threshold.

## *Working Time Regulations*

Holiday leave is a significant cost burden for the retail sector. The costs for retailers are not limited to just paying for holiday leave, they must also pay staff to cover. In the past, employers have been able to cite the Working Time Regulations as a limitation on employees carrying long term sick leave into the next year.

Current planned changes to the Working Time Regulations would constitute significant discrimination against small business owners. Retailers do not have any protection of income themselves from sickness but they must find cover for sickness leave and extra holiday entitlement. Allowing employees to carry over holiday interrupted by sick leave will compound problems with finding additional cover.

## **Alcohol and Tobacco Duty**

Alcohol and Tobacco duties in the UK are amongst the highest in the World. The persistent increases have had a damaging impact on the retail sector. No further increase should be included in this year's Budget.

This year's Budget should stop the trend for continual duty increases, particularly for tobacco products as there were significant increases in duty rates in 2011. An increase of 2% above inflation was introduced for cigarettes and a 10 % increase in hand rolling tobacco. Duty increases of this magnitude risk pushing consumers away from legitimate retail outlets to alternative sources.

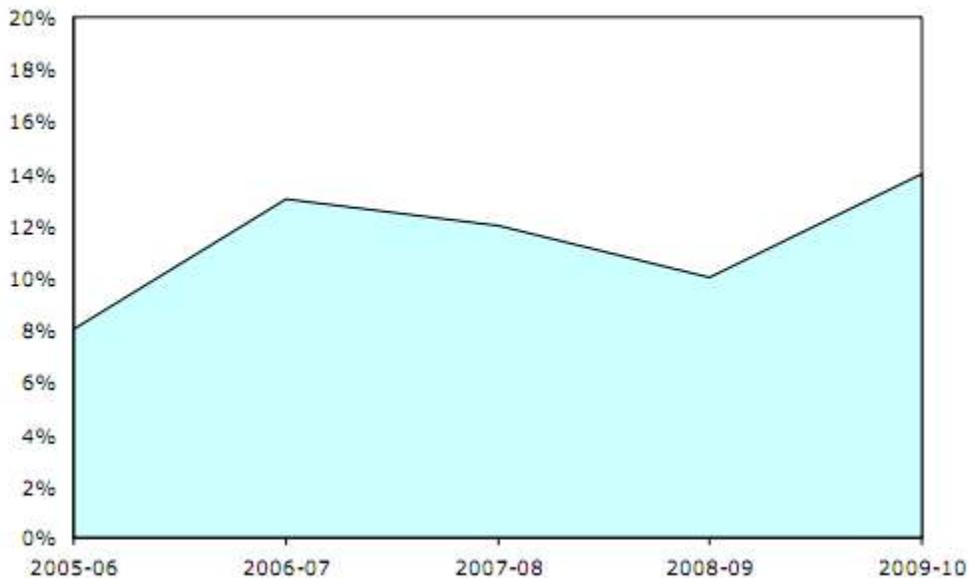
Action must be taken to prevent the drive towards the black market for alcohol and tobacco products. Duty avoidance and fraud costs the Exchequer in excess of £4.32 billion per year<sup>18</sup>. Recent excise data indicates a worrying reality for illicit beer sales, with a marked increase in the volume of beer sold illegally. The chart below<sup>19</sup> shows the market share of the illicit beer trade:

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<sup>18</sup> Conservative Green Paper – 'A Healthier Nation'

<sup>19</sup> HMRC Measuring Tax Gaps 2011

**Figure 3.2: Beer illicit market share – upper bound**



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More action is required by HMRC to prevent alcohol fraud and disrupt the supply chain of non duty paid goods. The introduction of duty stamps on beer is one necessary measure

HMRC should also consider taking a more robust approach to seizing goods where prices are simply not credible. Taking immediate action on suspect pricing will disrupt the supply chain and provide HMRC with greater opportunities to investigate the supply of these products. ACS also supports calls for wholesalers to become licensed. At present wholesalers are the only part of the alcohol supply chain that is not licensed. Introducing a register or licensing scheme, so long as there is clear enforcement will close a loophole that fraudulent traders are taking advantage of to supply non duty paid alcohol.

Tobacco smuggling is estimated to cost the taxpayer more than £3.08 billion per year in lost revenue, while alcohol smuggling costs the taxpayer over £1 billion per year<sup>21</sup>. Local shops accept that efforts are made and the scale of the enforcement challenge is significant, but with a concerted increase in resource and refocusing of effort in the ways we suggest below, we believe that a 50 % reduction in smuggling is achievable returning revenue in the range of £2 billion per year.

### *Tobacco Smuggling*

Consumer expenditure on tobacco products in 2010 was around £14.2 billion, sales in convenience sector totalled £6.38 billion – around 45% of total expenditure. Based on a 45% share of the tobacco sales loss of turnover to the Convenience sector is around £1.8 billion.

<sup>20</sup> HMRC Measuring Tax Gaps 2011

<sup>21</sup> Westminster Hall Debate, Alcohol Fraud, 9<sup>th</sup> February 2010

UK Border Agency (and previously HMRC) has pursued an effective campaign to tighten detection of smuggled products at UK Borders. The UK Border Agency reduced the illicit market share from 21% share to 17% between 2000 and 2003<sup>22</sup>. They now have a target to reduce the illicit market to 13%<sup>23</sup>. However there is much less focus on the growth of the market on the ground in communities. For example, only 12% of cigarettes seized came from inland enforcement activities<sup>24</sup>. Current activities and penalties, such as the use of UK Duty Paid 'fiscal mark' detector and banning orders, do not target the white vans and tab houses that make up this market.

Combating this problem requires a review and refocus of strategic responsibilities. HMRC has led responsibility for inland enforcement activity but is under resourced for the scale of its task, which has led to a tendency to not act on low level or everyday fraud. This has an effect on emboldening those willing to commit fraud in the community and demoralising legitimate traders. HMRC is not well placed or adequately resourced to target low level activity. On the ground enforcement should be tackled by an effective partnership between Trading Standards and local Police Constabularies.

To accompany this new enforcement structure, there also need to be tougher penalties for those caught selling illicit tobacco. These penalties must be sufficiently harsh to act as a deterrent for bootleggers, who are often organised criminals. Currently the punishment for smuggling tobacco is half that of smuggling class C drugs and smuggling tobacco is often seen as the low risk option for criminals. The current structure of sanctions is counterproductive and needs to be addressed. ACS recommends penalties for selling tobacco and alcohol illegally are brought into line with penalties for dealing in class C drugs.

ACS welcomes the Government decision to reduce the personal consumption allowance from the EU to 800 cigarettes. This level reflects more reasonable personal consumption.

## **Lending**

With economic conditions continuing to be tough for retailers, and forecasts predicting that 2012 will bring more of the same, access to credit is increasingly important to ensure the survival of many small and medium sized businesses. 2012 has already seen a number of retail outlets go under, and confidence remains low amongst remaining retailers in their ability to secure affordable credit from high street banks, despite initiative such Project Merlin and Credit Easing.

Many businesses are skeptical that these initiatives will have significant reach to the smallest of business, such as convenience stores, and that even if they do, any improvements may take too long to materialize. Recent years have seen the cost of borrowing soar, so that even those businesses with long term established relationships with lenders now lack confidence in their ability to secure affordable credit.

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<sup>22</sup> HMRC Tackling Tobacco Smuggling Together

<sup>23</sup> HMRC Tackling Tobacco Smuggling Together

<sup>24</sup> ACS Consultation Response: "Future of Tobacco Control Strategy"

<http://www.acs.org.uk/en/lobbying/issues/tobacco/>

While a more cautious approach from lenders is understandable, there are a number of measures we believe the Government should implement in order to encourage growth and remove the unnecessary barriers to securing finance.

The majority of lending to small business is based on borrowing against existing assets, such as property. However, in recent years banks have increasingly secured loans against non-business assets, such as borrowing against a retailer's domestic property. Exposing retailers to significant risk, such as the loss of their home, is huge deterrent to securing finance. ACS believes that banks should be encouraged to wherever possible base lending security on business assets rather than domestic properties.

Currently lenders' approach to business valuations for lending purpose are often unclear, with some lenders merely using the value of the property, rather than the value of the business it contains. The commercial valuation of any business should be in relation to their worth as working business. Where lenders use the lowest possible valuation of a property as security, this clearly has a significant impact on the amount of credit that will be made available. This represents a significant barrier to securing adequate finance for retailers.

ACS recommends that the Government encourages lenders to adopt the same property valuations mechanism when assessing loan applications as local authorities do when setting business rates. A consistent approach to valuation mechanism will ensure a fairer system and a greater chance of securing affordable credit for small businesses.

Banking costs are also a significant concern to many retailers. Small business retailers have to pay a set fee for every £100 banked, and many banks have increased their charges significantly. Convenience stores have a high cash turnover meaning banking charges have a significant impact on their base costs. We believe the Government should look into this area to see whether additional arrangements can be reached for small businesses with high cash turnover, as part of their work to improve the banking system and support small business.

## **VAT**

A typical convenience store will have 50% of its products VAT rated, making the industry particularly vulnerable to the rate of VAT. Margins have been significantly squeezed across the Grocery market and the increase rate of VAT has been a significant catalyst.

In recent polling of convenience retailers 62% stated that the number action they would like to see from the Chancellor's Budget is a reduction in VAT.

ACS recommends that the Chancellor takes action to reduction the rate of VAT as soon as possible.

## **Fuel Duty**

The rising cost of fuel triggered by a combination of high duty rates, increase in VAT and the rising price of oil on the global market is having a significant harmful effect on the convenience industry in two ways:

1. It is increasing the cost of distribution of goods that is putting inflationary pressure on prices and undermining retailers ability to price competitively
2. It is increasing the price of fuel at the pump and as such particularly harming forecourt retailers seeking to remain competitive and attract retail custom.

ACS welcomes the Government decision not to introduce the January 2012 3p tax increase on fuel and the reduction of August 2012 5p tax rise to 3p. However, a 3p increase in fuel in August will still cause difficulties for wholesalers, retailers and consumer confidence.

ACS urges the Government not to increase fuel duty in August 2012.

### **Reducing Regulatory Burdens**

Retailers welcome the clear intention behind Government initiatives to reduce the burden of red tape on business. We took a full part in the Red Tape Challenge for Retail and welcome the regulatory burdens removed in that process. We commit ourselves to continued work with Government to identify ways to reduce, remove or simplify existing regulations affecting retailers.

In particular we encourage Government to continue momentum on the work of the Business Regulation Delivery Office in simplifying age restricted sales laws and extending the scope of Primary Authority.

We believe there is still a long way to go for Government in challenging the approach to the imposition of regulation on business. We are in the year ahead expecting new regulatory burdens in the following areas:

- The introduction of a tobacco display ban for stores larger than 280sqm
- A consultation on generic packaging for tobacco products
- Fee increases for alcohol licences
- New discretionary levy raising powers related to late night alcohol premises
- Changes to the administration of alcohol licences
- Community right to bid restrictions on commercial sales
- Changes to rules on Paternity leave
- New compliance and training related to the Bribery and Equality Acts

It is not clear that these new regulations have been associated with consequent reductions in regulatory burdens, as suggested under the one in one out regulations. ACS is keen to be part of a renewed effort to reduce the overall burden of regulation brought forward by the Government over the course of the next Parliament.

For further information on ACS Budget submission please contact Edward Woodall, Public Affairs Executive: [Edward.woodall@acs.org.uk](mailto:Edward.woodall@acs.org.uk) or 01252 533014.

## **Annex 1**

### **Association of Convenience Stores**

ACS is the voice of over 33,500 local shops in the UK. Members trade in town centres, neighbourhoods and rural areas across the country, providing a local and convenient service and a focal point for the community.