SUBMISSION OF ACS TO THE TREASURY
Budget 2013

Introduction

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

2. 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 4.6% in 2012[1], but sales growth has not equated to general increases in profitability.

3. 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.

4. 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.

5. For more information about the issues raised in the submission, please contact Edward Woodall: Edward.Woodall@acs.org.uk.

[1] IGD Convenience Sector Brief 2012

Summary of Recommendations

PROPERTY

7. Annual increases in business rates based on the arbitrary use of the rate of inflation represented by the Retail Price Index value in September of the previous year have led to significant burdens for local shops and businesses. Retailers will see a further £175 million increase in their rates bill in April 2013. The delay to the 2015 revaluation will harm a number of retailers particularly those in the North that have seen a significant reduction in rental figure since 2008 –these businesses should be offered some form of compensation for the revaluation delay.

8. More action is required to fund the use of discretionary rate relief at local level to support essential business services locally. Local authorities need to be encouraged to channel retained business rates to support retailers struggling to maintain their business.

RECOMMENDATION: Cap increases in business rates at 2% in line with the Government's inflation target giving businesses more funds to invest and grow. Change the mechanism for annual business rates change to the annual average CPI rate.

RECOMMENDATION: Develop a mechanism to give relief to business most detrimentally affected by the delay to the 2015 revaluation.

RECOMMENDATION: Pursue the delivery of greater funding for local government discretionary rate relief and explore how this could be delivered through the retention of business rate by local authorities.

RECOMMENDATION: Review the thresholds for small business rate relief to encompass more small businesses providing essential services.

LENDING

9. Access to credit is vital for the survival of convenience stores in the current economic climate. The greatest burdens for retailers are the costs and punitive terms involved. Banking costs are also of concern to convenience stores, owing to their high cash turnover; the costs of banking are significant when set fees for every £100 are frequently increased by banks.

RECOMMENDATION: A review of the impact of everyday retail banking practices, such as service charges should be conducted, to understand how these are affecting small business growth.

RECOMMENDATION: Require banks to publish individual data on their performance against small business lending targets

ALCOHOL AND TOBACCO DUTY

10. The illicit sales of tobacco and alcohol markets create significant burdens to both retailers and Government. ACS is concerned that there is a correlation between increasing duty on alcohol and tobacco products and increase in illicit sales; should duty be increased in the Autumn Financial Statement, customers may be more inclined to purchase illicit goods.

RECOMMENDATION: Introduce no further alcohol or tobacco duty increases in the 2013 Budget.

RECOMMENDATION: HMRC should move quickly to introduce registration for alcohol wholesalers and duty stamps for beer in order to help tackle alcohol fraud.

VAT

11. VAT was the biggest 2013 Budget issue for retailers identified in a February 2013 survey of ACS members. 50% of the products lines stocked in convenience stores are subject to VAT.

RECOMMENDATION: Investigate the benefits of reviewing VAT rates at the earliest opportunity

REDUCING REGULATORY BURDENS

12. ACS advocates reducing, removing or simplifying regulations that directly affect retailers. In particular, we support the Government's work on the Red Tape Challenge and welcome the work of the Better Regulation Delivery Office on age restricted products and extending the scope of the Primary Authority Scheme.

RECOMMENDATION: Ensure the Government's commitment to reducing regulatory burdens is adopted in the process of policy formation as well as the current review.

Ensure that consultations on the introduction of new regulations include proposals for which regulations could be removed, as part of the Government's one-in two-out policy.

The Contribution of Local Shops

13. There are 49,840 convenience stores in England, Scotland and Wales, employing more than 372,000 staff in their retail stores alone. The sector is diverse, entrepreneurial and innovative. For example:
    - More than 77% of stores are owned and operated by small business owners, with 70 per cent of these being first time investors.
    - Ten per-cent of owners are under the age of 30, 29% are female.
    - 48% of owners being Asian or Asian British.

14. This shows a sector with low barriers to entry which attracts entrepreneurs of all ages and from all backgrounds. Owners are among the most hard-working people in the country, with 60% working longer than 50 hours per week, and 31% take less than 10 days holiday a year.

15. Convenience stores provide vital local, flexible employment. 64% of staff are female, a quarter of employees are aged 16-24, and 75% of employees work part time. However, in addition to providing jobs, convenience stores also offer valuable retail experience and career opportunities, with 88% providing staff training and 35% providing the opportunity to gain formal qualifications. It is a sector where families work together, with more than 60% of independent retailers employ at least one other member of their family.

16. Local shops are providing a growing range of services such as bill payment services, cash machines, mail order collection and home news and grocery delivery.

17. The full ACS Local Shops Report 2012 report can be seen in full at: http://acs.org.uk/en/research/local-shop-report/index.cfm

Sales Performance and Confidence Among Independent Retailers

18. Since the start of 2012 ACS has been conducting three monthly surveys of 200 independent retailers.[2] The Voice of Local Shop Survey provides a snapshot of how the smallest businesses in our industry are faring. Based on the first five surveys (February, May, August, November and February 2013) we are able to provide the following insight into sales and confidence in this part of our market.

19. In all 5 quarters surveyed the highest percentage of respondents reported sales decreases. However there was marked improvement in reported sales in May and August 2012, followed by a very significant downward turn in the November 2012 survey. The latest survey shows an improvement in sales performance comparable to May and August.

When comparing the last three months to same three months last year have your sales?			
	Increased	**Decreased**	**Stayed the Same**
February 2012	18%	46%	36%
May 2012	23%	43%	34%
August 2012	26%	38%	37%
November 2012	15%	49%	36%
February 2013	25%	44%	32%

[2] The Voice of Local Shops is collected for ACS by him! – It is quarterly survey of 201 local shop owners trading convenience stores either as standalone independents or as part of a symbol group

20. The survey also measures how optimistic retailers are feeling both in terms of their predictions for how sales will fare in the year ahead and in the investments they are planning to make in their business. The survey showed a modest but growing confidence with the number of retailers expecting sales to increase from February-August, but fell to its lowest level in November, when 25% of respondents expected sales to decrease in the next year. However, optimism increased significantly at the beginning of 2013 with 45% of respondents expecting sales to increase in the year ahead.

21. The number of retailers that report that they are considering making investments in their existing store has remained consistently at just under a quarter of respondents from February-November. The number of respondents having no plans for their store in the next year increased in February 2013.

Thinking about your business in the next year do you expect sales to…?			
	Increase	**Decrease**	**Stay the Same**
February 2012	47%	19%	34%
May 2012	50%	13%	38%
August 2012	40%	22%	39%
November 2012	32%	25%	44%
February 2013	45%	16%	39%

Thinking about your business in the next year do you plan to…?					
	No Plans	**Investing in refurbishing or improving your existing store**	**Sell stores**	**Buy stores**	**Don't Know**
February 2012	64%	21%	7%	3%	6%
May 2012	42%	25%	6%	11%	20%
August 2012	49%	23%	6%	9%	21%
November 2012	56%	24%	10%	5%	7%
February 2013	61%	22%	5%	3%	9%

The Voice of Local Shops survey is available in full at http://www.acs.org.uk/en/research/voice-of-local-shops-survey/index.cfm.

Policy Recommendations

BIS RETAIL ACTION PLAN

22. ACS has been working with the Department for BIS to develop the retail action plan identifying regulatory barriers to growth and opportunities for the sector to expand and develop. ACS will continue to support and work with the Department for BIS to deliver the retail action plan.

PROPERTY COSTS

Business Rates

23. Business rates remain a considerable burden for small retailers. ACS recognises the measures the government has put in place to support businesses, such as the extension to the Small Business Rate Relief Scheme (SBRR), the deferral scheme and locally funded discretionary rate relief scheme.

24. ACS maintains that these do not benefit the majority of small businesses. Recent surveys show that business taxation and business rates are identified as two of the key barriers to business growth[3].

25. The current approach to targeting reliefs, designed to provide support to those who need it most, is not working effectively. For example, the Maximum Qualifying Rateable Value for SBRR is too low and local authority funding for discretionary rate relief is non-existent. The Government's own projection for uptake of the deferral scheme is only 10%[4].

Annual increase

26. The burden of business rates has been further compounded by the high annual inflation increases experienced in recent years. In 2011 there was a 4.6% increase, in 2012 a 5.6% increase and in April 2013 there will be a 2.6% increase. This year's increase of 2.6% will add £175 million to the retail sector's rate bill, when it is already the largest contributor to the business rates bill.

27. The system for setting annual rate changes is broken and needs an urgent and fundamental review. We would be keen to participate in that review. The aim must be to remove the uncertainty and unpredictability by which these increases are set. To deliver certainty for business ACS recommends using the annual average for CPI inflation to determine future rates increases – this will mitigate the spikes in inflation we have seen in the past two years.

28. Fundamental to this new system should be the introduction of a cap that prevents any annual increase exceeding a predetermined threshold. This would allow business to budget more effectively and create more confidence in investment decisions. The cap should be set in line with the Government's own inflation target of 2%. Any increase above this threshold penalises businesses for the failures of monetary policy.

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[3] ACS Voice of Local Shops 2 & 3

[4] Autumn Financial Statement 2011 Policy Costing

RECOMMENDATION: Cap increases in business rates at 2% in line with the Government's inflation target giving businesses more funds to invest and grow. Change the mechanism for annual business rates change to the annual average CPI rate.

RECOMMENDATION: Change the mechanism for the annual rates increase to the annual average CPI indicator.

Business Rate Revaluation Delay

29. ACS has received reassurance from Ministers that a revaluation in 2015 would result in a higher number of losers than winners. The Valuation Office Agency data[5] highlights that there will be an estimated 800,000 hereditaments would fall into categorise that would result in an overall rise in tax payable and 300,000 would see an overall reduction.

30. A number of retailers, particularly those in north, that have experienced considerably high vacancy rates are likely to have benefited from the planned revaluation. The Government must consider how it will support these businesses, either through extending transitional rate relief scheme for two years or introducing a voluntary deferral scheme for those that want to delay the additional costs.

RECOMMENDATION: Develop a mechanism to give relief to business most detrimental affected by the delay to the 2015 revaluation.

Funding Discretionary Rate Relief Locally

31. In the last two years, the Government has focused extensively on the decline in high streets and tackling increasing vacancy rates. The Portas Review has proved to be a successful medium for raising the profile of this issue and engaging communities to think about the future of their high streets. ACS has been fully supportive and committed to this process.

32. Serious consideration should now be given to a new policy delivering funding or incentives to encourage use of discretionary rate relief by local authorities. The retention of business rate by local authorities provides an opportunity for central government encourage local authorities to allocate funding for discretionary rate relief and free up small business capital to invest and expand.

33. Funding of discretionary rate relief will enable councils to make direct interventions to support businesses locally and deliver a substantial decrease to their rates burden. This is more significant and targeted than the small reductions offered by existing rate reliefs or changes made centrally.

[5] Valuation Office Agency's high level estimates of non-domestic rental and rating assessment movements for England

RECOMMENDATION: Pursue the delivery of greater funding for local government discretionary rate relief and explore how this could be delivered through the retention of business rate by local authorities.

National Planning Policy Framework (NPPF)

34. The NPPF is an essential element in delivering town centre regeneration and we are pleased that the Government has shown such strong commitment to town centre first planning policy. It is essential that there is continual focus on delivering on commitments in the NPPF on the ground and where necessary central government must intervene to prevent inappropriate developments.

35. We have sought clarification that proposals in the Growth and Infrastructure Bill (clause 24) will not undermine local accountability and delivery of the NPPF by including retail developments as nationally significant developments. These decisions must be made locally fully consulting with communities and local stakeholders.

36. ACS will continue to monitor the implementation of the NPPF principles especially clause 23 to 27 relating to town centres and feedback any comments.

LENDING

37. With economic conditions continuing to be tough for retailers, and forecasts predicting that 2013 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 seen a number of retail outlets close, and this combined with the mis-selling of interest rate hedging products to businesses has caused confidence levels to remain low amongst remaining retailers.

Lending practices

38. In the 2012 Budget the Government welcomed commitments made by the banks to publish an independent review of the lending appeals process; improve training for relationship managers; review the effect of credit ratings on start-ups and businesses switching banks; establish a system for referring unsuccessful loan applicants to Community Development Finance Institutions; and extend their national mentoring scheme. While we welcome progress in these areas, it is important that lending processes and practices are reviewed to ensure these benefits are being delivered to business customers.

39. The debate about whether banks are meeting the commitments made to make loans available to small businesses is relatively impenetrable for small businesses. Greater transparency is required. We believe that the best way to benchmark performance is to publish aggregated data about lending on a bank by bank basis. This would allow businesses to see which banks are delivering on the high level commitments they have made.

RECOMMENDATION: Require Banks to publish individual data on their performance against small business lending targets

Costs of finance

40. The increased costs and punitive terms being imposed on lending agreements is a major concern. Lenders are seeking extensive lending guarantees being based on personal collateral, such as property, rather than on the existing assets of a business, and increased banking and overdraft charges.

41. While a more cautious approach from lenders in the current economic conditions 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.

42. 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.

43. 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.

RECOMMENDATION: A review of the impact of everyday retail banking practices, such as service charges should be conducted, to understand how these are affecting small business growth.

ALCOHOL AND TOBACCO DUTY

44. Alcohol and tobacco duties in the UK are amongst the highest in the world. The trend for continual duty increases, and particularly the increase of 5% above inflation introduced for all tobacco products in the 2012 Budget, risk pushing consumers away from legitimate retail outlets to alternative sources.

45. The impact of the illicit trade on retailers should not be underestimated. HMRC estimate that retailers are losing up to 14% of the UK beer market to the illicit trade, the illicit market undercuts prices at legitimate retailers, harming their businesses – alcohol and tobacco are important categories for generating footfall.

46. The scale of alcohol and tobacco fraud needs to be urgently addressed, to protect legitimate retailers from losing market share or being liable to prosecution for unknowingly stocking illicit alcohol, and to target those who are willingly and knowingly operating within the illicit trade. As such, we support the introduction of further measures to address this problem.

RECOMMENDATION: Introduce no further alcohol or tobacco duty increases in the Autumn Financial Statement or 2013 Budget.

Smuggling and Duty Fraud

47. Tobacco smuggling is estimated to cost the taxpayer £2.2[6] billion per year in lost revenue, while alcohol smuggling costs the taxpayer over £1.2 billion per year. 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 £1.7 billion per year.

Alcohol

48. Recent excise data indicates a worrying reality for illicit beer sales, with a marked increase in the volume of beer sold illegally. The table below[7] shows the market share of the illicit beer trade:

Table 3.2: Beer: Illicit market share and associated revenue losses[6]

	2006-07	2007-08	2008-09	2009-10[2]	2010-11[1]
Illicit market shares (per cent)[3]					
Upper estimate	13%	12%	12%	13%	14%
Implied mid point	No data	9%	9%	9%	10%
Lower estimate	No data	6%	6%	5%	5%
Associated revenue losses (£ million)[4,5]					
Upper estimate	700	650	650	700	800
Implied mid point	No data	500	450	500	550
Lower estimate	No data	300	300	250	300

1 Figures for 2010-11 are provisional
2 Figures for 2009-10 have been revised
3 Figures independently rounded to the nearest 1 per cent
4 Includes both duty and VAT
5 Figures independently rounded to the nearest £50 million
6 Lower and mid point estimates are not available for years before 2007-08

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49. The HMRC Tax Gaps Report 2012 also showed that alcohol duty fraud increased last year to £600 million.[9]

50. In June this year ACS responded to the HMRC consultation on Alcohol Fraud, supporting the proposals for the introduction of duty stamps on beer and the registration of alcohol wholesalers. At present wholesalers are the only part of the alcohol supply chain 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.

51. However, there is also a need for greater resources for a more localised approach to enforcement. HMRC should consider taking a more robust approach to seizing goods where prices are simply not credible. Taking immediate action on suspect pricing will

[6] HMRC Tackling Tobacco Smuggling – building on our success
[7] HMRC Measuring Tax Gaps 2012
[8] HMRC Measuring Tax Gaps 2012
[9] HMRC Measuring Tax Gaps 2012

disrupt the supply chain and provide HMRC with greater opportunities to investigate the supply of these products.

52. HMRC's Alcohol Fraud Consultation also included provision to extend supply chain legislation, which would place responsibility on suppliers to know their markets and customers, with checks on regular customers and the credibility of new customers

RECOMMENDATION: HMRC should introduce registration for alcohol wholesalers and duty stamps for beer in order to help tackle alcohol fraud.

Tobacco

53. Tobacco sales make up 19.9% of sales in the convenience sector (£33.9 billion), totalling £6.75 billion. Given HMRC estimates that 11% of tobacco sales are illicit, the annual cost of tobacco duty fraud to the convenience sector would be around £78 million.

54. 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[10]. They now have a target to reduce the illicit market to 13%[11]. However there is much less focus on the growth of the market on the ground in communities.

55. For example, only 14% of cigarettes seized came from inland enforcement activities[12]. 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.

56. 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.

VAT

57. ACS' Voice of Local Shops Survey[13] asked retailers what they would most like to see the Chancellor take action on in the Budget. 59% of respondents stated they wanted a reduction in VAT. This recommendation is the result of the high number VAT chargeable items stocked in convenience stores.

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[10] HMRC Tackling Smuggling Together
[11] HMRC Tackling Smuggling Together
[12] ACS Consultation Response: "Future of Tobacco Control Strategy" http://www.acs.org.uk/en/lobbying/issues/tobacco/

[13] ACS VOLS Survey, February 2013: The Voice of Local Shops is collected for ACS by him! – It is quarterly survey of 201 local shop owners trading convenience stores either as standalone independents or as part of a symbol group

58. ACS' Local Shop Report lists a breakdown of categories sold in convenience stores. Almost 50% of these items will have some form of VAT chargeable to them. Retailers are increasingly reliant on promotions to deliver value to consumer a reduction in VAT would make it easier to increase value to consumers and drive sales in a highly competitive market place.

RECOMMENDATION: Investigate the benefits of reviewing VAT rates at the earliest opportunity

REDUCING REGULATORY BURDENS

59. Retailers welcome the intention behind Government initiatives to reduce the burden of red tape on business, and in particular welcome the announcement in September that 3000 regulations will be removed or overhauled in efforts to reduce red tape and boost growth. Government must work with businesses and relevant organisations as part of this process, to help identify the key regulations which will make a material difference ahead of the announcement of affected regulations in December 2013.

60. ACS participated fully in the Red Tape Challenge for Retail and have committed to continue to work with Government to identify ways to reduce, remove or simplify existing regulations affecting retailers. The progress made on the work of the Better Regulation Delivery Office in simplifying age restricted sales laws and extending the scope of the Primary Authority Scheme is particularly welcome.

61. There is still a long way to go for Government in challenging the approach to the imposition of regulation on business. In particular, the proposals to introduce significant new regulatory burdens for retailers arising from the Government's Alcohol Strategy appear to contradict the intentions behind the Red Tape Challenge. The introduction of health as a licensing objective for CIPs, a ban on multi-buy promotions for the off-trade and Minimum Unit Pricing will introduce disproportionate costs for the smallest businesses and distort competition in favour of large multiple retailers.

62. Over the coming months and years we also anticipate possible further regulatory burdens in the following areas:

    - Changes to the administration of alcohol licenses (locally set fees)
    - The potential introduction of standardised packaging for tobacco products
    - The introduction of auto-enrolment pensions

63. As highlighted in relation to current alcohol policy, it is not clear that these new regulations are being associated with consequent reductions in regulatory burdens, as suggested under the one in two out policy on regulations. ACS is keen to see the Government's welcome commitment to reducing red tape reflected in policy formulation as well as the current review of existing regulations.

RECOMMENDATION: Ensure the Government's commitment to reducing regulatory burdens is adopted in the process of policy formation as well as the current review.

Ensure that consultations on the introduction of new regulations include proposals for which regulations could be removed, as part of the Government's one-in two-out policy.