ACS Submission: The impact of Business Rates on business

1. ACS (the Association of Convenience Stores) welcomes the opportunity to submit evidence to the Treasury Select Committee inquiry on business rates. ACS represents 33,500 local shops and petrol forecourts including Co-op, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Nisa and Costcutter. Further information about ACS is available at Annex A.

2. Business rates represent one of the largest fixed costs for convenience retailers and one-in-three had an increase in their rateable value as a result of the 2017 business rates revaluation[1]. The Government has failed to deliver a 'root and branch' review of the business rates system or significantly lower the overall burden of business rates. However, we do recognise that several interventions made by the Treasury have supported parts of the convenience sector to reduce the overall burden of business rates. These are:

- Increasing the Small Business Rate Relief Threshold to £12,000 RV, which removed or reduced rates liabilities for many independent convenience retailers.
- Announcing a one-third rates discount for businesses on the Small Business Multiplier (under £51,000 RV).
- Shifting calculations for the annual uprating of business rates bills from RPI to CPI.

3. The Treasury has not been willing to consider breaking the fiscal neutrality principle underpinning the business rates system, outside of temporary relief policies. Therefore, the business rates system must always raise the same revenue regardless of fluctuations in the market. This means the burden on business is the same but shared differently. We do not believe the Government should scrap the whole business rates system and move to a sales or turnover based model – this would be damaging for local shops. We believe that the Government should seek to work within the existing business rates system to better incentivise investment and growth.

4. The business rates system is currently a brake on economic growth and investment. For example, when businesses invest in their property through property expansion, CCTV, air conditioning or fire safety systems, their business rates bills increase. The rating system should be recalibrated to incentivise investment by allowing retailers to delay increases in their business rates bill, giving them time to recoup the costs of the investments over a two-year period. The Scottish Government has already introduced a similar policy through Business Growth Accelerator Relief.

5. The wider debate about the future of business taxation has been propelled by the ongoing shift towards online retail. We welcome that the MHCLG Select Committee High Streets Inquiry has set out several options to consider, to account for online businesses in the rating system. We have made the case for working within the existing rating through a bespoke methodology for online distribution warehouses. Petrol forecourts, ATMs and pubs are rated using bespoke methodologies based on turnover. Similar principles could be applied through a methodology for online businesses' use of physical property.

6. These points are expanded on in further detail below. For more information, contact Steve Dowling, ACS Public Affairs Manager, via steve.dowling@acs.org.uk or 01252 533009.

[1] ACS Voice of Local Shops Survey: November 2016

Reviewing Business Rates Policy Since 2017

Recommendation One – Raise the number of properties that can be used by a business before Small Business Relief is removed to support business growth.

7. The government's policy interventions on business rates in recent years have been welcome and reduced the burden of business rates bills on independent convenience retailers and the wider high street. This includes the change in business rates indexation from RPI to CPI, pegging increases to the lower CPI rate, which has been recently advocated as the preferred measure of inflation by the House of Lords Economic Affairs Committee[2].

8. The expansion of Small Business Relief has been the most significant business rates policy for the sector since 2017, removing many independent convenience retailers from business rates liability. The threshold for 100% Relief was raised from £6,000 RV to £12,000 RV, with tapered relief available for retailers between £12,000 RV and £15,000 RV. ACS' Voice of Local Shops survey, a survey of 1,210 independent and symbol group retailers, finds that 31% of retailers do not pay business rates and 21% pay a reduced level of business rates by receiving some form of business rate relief[3].

9. However, the existing Small Business Rate Relief scheme removes discounts 12 months after a retailer has expanded to a second site in the vast majoity of circumstances[4]. This acts as a disincentive for independent retailers from expanding into new locations to expand their businesses, which could limit some areas' access to convenience store services. The inquiry should assess the criteria for the removal of Small Business Relief and consider raising the number of stores a retailer can operate before they become ineligible.

Recommendation Two – Deliver three-yearly revaluations from 2021 to strike the right balance between rateable values following the property market and certainty for business.

10. The Spring Statement 2018 decision to bring forward the next revaluation from 2022 to 2021 will support more accurate bills. The merits of delivering more frequent revaluations is one of the few areas where there is evident consensus amongst business groups. More frequent revaluations will allow rateable values to link more closely with the non-domestic property market and three-yearly revaluations strike the balance between VOA resource and accuracy for business. The UK has the highest non-domestic property taxes in Europe, so businesses deserve a rating system that doesn't bill based on out-of-date information.

Recommendation Three – Ensure future business rates policies are centrally administered to provide certainty for retailers.

11. A key learning from recent business rates policy interventions must be that reliefs should be centrally-administered and automatically applied to provide certainty for business. These interventions include the £300m revaluation support fund announced at Spring Budget 2017 and the one-third discount for businesses on the Small Business Multiplier (under £51,000 RV) from April 2019 until the 2021 revaluation. These policies have been welcome to reduce the burden of business rates on convenience retailers and support them to adapt to the changing retail market and consumer shopping habits.

12. Local authorities were given discretion about how to distribute the £300m revaluation support fund. However, local authorities were very slow to distribute the funding, ultimately leading to the Ministry of Housing, Communities and Local Government publishing updates on rebilling progress to coerce

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[2] https://publications.parliament.uk/pa/ld201719/ldselect/ldeconaf/246/246.pdf
[3] ACS Voice of Local Shops Survey: August 2017
[4] https://www.gov.uk/apply-for-business-rate-relief/small-business-rate-relief

local authorities yet to provide the funding to businesses[5]. Some local authorities also failed to use the funding effectively. £17.5m (or 10%) of the fund for 2017/18 was not distributed despite its costs being entirely met by central government through s31 grants[6].

13. It is also the responsibility of local authorities to bill ratepayers for 2019/20 with the one-third business rates discount. Despite failures with the revaluation support fund, it has been reported that local authorities are still failing to apply the discount[7]. Varying schemes between local authorities are also causing confusion, with some requiring multiple retailers to apply for the discount and others applying the relief automatically.

14. Poor implementation of the revaluation support fund, the one-third rates discount and limited use of business rates powers under the Localism Act demonstrates why financially-stretched local authorities should not be granted further responsibilities over the business rates system, including on administering any business rates reliefs and the multipliers. This should be a key learning from recent business rates policy.

Business Rates as Good Tax Policy

Recommendation Four – Incentivise investment by providing two-year exemptions from bills for new store developments, similar to the Scottish Government's Growth accelerator.

15. A common criticism made of the business rates system is that it disinentivises investment, by penalising businesses through higher bills when they invest in plant and machinery or expand their businesses. For the convenience sector, these higher bills arise when a retailer extends their premises or adds CCTV, fire safety systems, air conditioning units or other internal items to their shop[8]. These higher bills can subdue investments, reducing economic activity and preventing the positive benefits of store improvements from being realised, such as increased energy efficiency or reduced crime.

16. The last Business Rates Review rejected exempting plant and machinery from rating, but the perverse outcomes it causes could be prevented by allowing businesses to recoup the costs of investments before increases in business rates bills take effect. This could be achieved by adopting a scheme similar to the successful Scottish Government's Business Growth Accelerator, which is set to be made permanent in the Non-Domestic Rates (Scotland) Bill. We would support a scheme delaying increases in bills for two years to unlock further investment from the convenience sector, which invested £746m over the past year[9].

Recommendation Five – Review rating methodologies not based on property values such as the petrol forecourt site methodology, which penalises retailer investments.

17. To improve fairness within the business rates system, rating methodologies that are not based on property values should be reviewed. The business rates system is based upon hypothetical notional rental values of premises. This is easier to establish where there is a rental market, but where there is a lack of market evidence the basis of valuation moves to the far less transparent receipts and expenditure turnover-based model.

18. This model is used for petrol forecourt sites in the sector and means the business rates they pay are neither related to the property they occupy or actual site performance. Petrol forecourts paid £208m

[5] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2017-09-14/HCWS140/
[6] https://www.betterretailing.com/rates-overbilling
[7] https://www.retailgazette.co.uk/blog/2019/03/fears-mount-retailers-councils-admit-issues-ahead-april-tax-cuts/
[8] https://www.gov.uk/guidance/how-non-domestic-property-including-plant-and-machinery-is-valued#what-counts-as-plant-and-machinery
[9] ACS Voice of Local Shops Survey: May 2018 – February 2019

in business rates last year, 61% of the total bill for the sector[10]. The turnover-based methodology for petrol forecourt sites is penalising retailers who have invested in the shop side of their business. These retailers often receive higher business rates bills based on turnover despite the low margins on many goods and services offered in the shop. This rating methodology requires review to support further nivestment in the shop side of petrol forecourt businesses.

Recommendation Six - Exempt free-to-use ATMs from paying business rates in recognition of their role as 'high street enablers' facilitating consumer spending.

19. Through-the-wall ATMs are also rated on a turnover basis. Retailers are billed £4,000 on average for hosting an ATM, separately to rates payable for the shop[11]. An ongoing legal case on whether through-the-wall ATMs should be separate entries on the rating list is now being appealed to the Supreme Court by the Valuation Office Agency after the Court of Appeal ruled they should not be billed directly[12]. Local authorities have failed to use their discretionary relief powers (see paragraph 28), so ATMs should be exempted form rates liability regardless of the outcome of this case in recognition of their role to provide access to cash and encourage consumer spending in businesses across the high street. We believe similar principles should be applied to the range of other concessions and essential services which convenience stores provide.

20. Exempting ATMs from business rates would support other policy objectives from the Payment Systems Regulator to ensure a national network of ATMs to promote access to cash and financial inclusion. The ATM business model is based on interchange fees paid by banks through the network body LINK to ATM operators such as Cardtronics or NoteMachine. Retailers enter into contracts with ATM operators to host ATMs for a portion of this interchange fee income, which is paid on a per transaction basis. These interchange fees are declining and putting pressure on the ATM network – exempting ATMs from business rates would improve the commercial viability of hosting an ATM for retailers.

Recommendation Seven – Use the Spending Review to effectively resource the VOA to speed up the appeals process and accurate rates bills for ratepayers.

21. An accessible and functioning appeals system is fundamental to a fair and coherent business rates system. The introduction of 'Check, Challenge, Appeal' in England was intended to reduce speculative appeals and deter rogue agents. However, the new system is complex and inefficient, characterised by extended uncertainty over rating decisions and an onerous rollout of the VOA's appeals portal. At least 32% of convenience retailers lodged an appeal after the 2010 revaluation, with 90% of those to have received a hearing outcome seeing their rateable value change[13]. Yet the new system has caused an 80% decline in appeals cases lodged in the first 18 months of the rating list from 2010 (314,130) to 2017 (65,380)[14].

22. New complexities to appealing include the requirement for ratepayers to input details about their property which require significant research, for example the construction date of the building, early on at the 'check' stage. The 'challenge' stage also requires ratepayers to provide an alternative valuation and supply all evidence within 4 months of an accepted 'check', making the appeals system inaccessible for ratepayers without professional representation. The 'appeal' stage now charges a £300 fee to the ratepayer (£150 for small businesses), refundable on successful appeal. These issues and practical problems with the VOA appeals portal are barriers for retailers looking to

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[10] ACS Local Shop Report 2018
[11] £300m of business rates refunds held until "cash tax" decision reached Retail Gazette. 21 May 2018
[12] https://www.propertyweek.com/news/court-of-appeal-overturns-atm-business-rates-ruling/5099769.article
[13] ACS Voice of Local Shops Survey: February 2015
[14] https://www.gov.uk/government/statistics/non-domestic-rating-challenges-and-changes-2017-and-2010-rating-lists-decembr-2018-experimental

use the appeals system to gain a transparent insight into how their rateable value has been calculated and ensure an accurate rates bill.

23. From claiming a property, navigating through the Check, Challenge and Appeal stages will take over three years in most cases. Many ratepayers are forced to pay higher rates bills than they should be during this time, when these funds could be better used to promote and grow the business. The lengthy appeals process is therefore a hindrance to supporting growth. Despite this, the VOA is currently in the process of cutting more than 25% of its workforce by 2021[15]. The VOA must be properly resourced by HM Treasury after the forthcoming Spending Review to speed up the appeals process and improve fairness within the business rates system as a pillar of good tax policy. This would also support the VOA in moving towards more frequent revaluations (see rec. 2).

The Future of Business Rates

Recommendation Eight – Account for the digital economy within the business rates system by applying a bespoke rating methodology to properties used by online retailers, such as distribution warehouses.

24. The Digital Services Tax is a welcome statement of intent that the UK Government is committed to ensuring the tax burden is shared fairly between bricks and mortar businesses and online competitors. However, the Tax will only generate £400m per annum from 2020, compared to the £25bn forecast to be collected by local authorities in business rates in 2019/20, and will not be used to reduce the burden of business rates[16].

25. Further action is required to tackle the imbalance in taxes paid between retailers supporting local high streets and online-based business models. We are not calling for HM Treasury to adopt punitive measures against online retailers, but the disparity between tax paid by online and bricks and mortar businesses has implications for the viability of high street services. This trend should be averted by applying a different rating methodology to the property used by online businesses, for example distribution warehouses, within the existing business rates system. The use of different rating methodologies to establish market rental value is already common in other important sectors where the economic value of the business is not reflected in property values as traditionally determined in the rating system, such as pubs, restaurants and petrol forecourts, which are based on the receipts and expenditure model.

Recommendation Nine – Retain business rates as a property-based tax – alternatives such as a Land Value Tax would cause significant upheaval and performance-based taxes would harm retailers and high street businesses most in need of support.

26. The main benefits of business rates as the primary method of business taxation remain as relevant as they ever were; business rates provide a stable revenue stream to fund local services and as a tax based on immobile property avoidance is very difficult. The system is also flexible enough to provide reliefs and discounts when deemed economically appropriate, for example Small Business Relief and the Retail Rate Relief Scheme from 2014 – 2016. The business rates system retains this flexibility to account for the digital economy (see recommendation 8), a key factor giving rise to the debate on the future of business rates. The other main criticisms of business rates, that it penalises investments, causes shocks during revaluations and has a complex appeals system, can all be solved through other recommendations detailed in this submission – they are not fundamentally linked to the principles of the tax.

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[15] https://www.ft.com/content/0b8b195e-d38f-11e7-a303-9060cb1e5f44

[16] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/778324/NNDR1_2019-20_Stats_release.pdf

27. We would not support a blunt move away from business rates to a turnover-based tax or sales tax. These taxes do not meet the benefits of business rates outlined above, yet would not incentivise investment or better reflect ratepayers' ability to pay. A turnover tax could penalise businesses with low basket spends while a sales tax would penalise low margin businesses. Businesses with low basket spends and low margins, inclduing convenience retailers, predominantly trade from high streets, meaning moving to these taxes would undermine the government's concerted efforts to help high streets to adapt to the market.

28. The main supposed benefit of a Land Value Tax is that it would tax a plot of land rather than the property that sits on top of it – thereby ratepayers' bills are not impacted by property improvements. While we welcome the system being less based on the featured services within a property, the current business rates system could account for this by introducing a scheme similar to the Scottish Government's Business Growth Accelerator Relief (see rec. 4).

29. Transitioning to a Land Value Tax would be a highly complex process and its advantages could be met through the existing business rates system. A Land Value Tax would require separating land value from the value attributed to the buildings on top that land and its permitted use, a significant hurdle requiring subjective assessments which would result in significant additional work for the appeals system. Another barrier includes identifying land owners, especially difficult where complex leasing arrangements exist, and the Land Value Tax would also not effectively account for the digital economy.

Recommendation Ten – Ensure business rates retention incentivises local authorities to promote economic growth from all sizes of business.

30. We support the principles of business rates retention to reward local authorities that are positive spurs for local business growth by retaining growth in business rates revenue. However, local authorities' track record in using the business rates system to promote economic growth is poor and the sector is dealing with budget cuts, reducing funding for non-statutory town centre management and economic development strategies.

31. For example, local authorities have failed to make use of business rates powers contained in the Localism Act 2011. The Act allows them to provide discretionary business rates relief to any business under their jurisdiction, subject to state aid rules. The powers were intended to provide local authorities with greater flexibility to support local businesses and their use is 50% funded through s31 grants. However, only 39 out of 326 local authorities have used these powers, even with their potential to support high streets and shopping parades to thrive[17].

32. Business rates retention, whereby local authorities retain business rates revenue growth, must encourage local authorities to adopt innovative approaches to local economic development from its entire business base. We are concerned that business rates retention provides a perverse incentive for local authorities to prioritise business support to larger businesses. Small Business Rate Relief means local authorities will yield minimal revenue growth from small businesses and convenience stores, which could lead to an unintended consequence of large format planning developments being approved that direct trade away from high streets. Additional protections must be developed to ensure this does not happen.

[17] Telegraph. 24 October. Devolution will not solve business rates burden groups warn Treasury

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.

ACS | the voice of local shops

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

SALES

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.

SHOPS

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.

JOBS

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

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

ENTREPRENEURS

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.

COMMUNITIES

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.

INVESTMENT

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