ACS Submission: Autumn Financial Statement 2015

EXECUTIVE SUMMARY

National Living Wage

- The LPC remit should be extended so that they can set future rates and to avoid political interference.
- Freeze the National Minimum Wage rate to encourage job creation
- Mitigate increased wage costs through lower business rates, statutory sick pay, and automatic enrolment exception
- Increase the valued business rates discount system to £3,000 per store as a measure to mitigate part of the initial impact of the National Living Wage
- Look into ways to support larger businesses that will also be negatively affected by an increase in employment costs

Sunday trading

- The Government must drop proposals to Devolve Sunday trading rules to local authorities. These proposals would result in no economic or social benefit, and are not wanted by the general public.
- The Government should review the evidence about the economic impact of devolving Sunday trading rules and reflect on the impact on high streets and local shops.

Business rates

- Break the fixed, rising yield from business rates by reviewing the mechanism for annual business rates increases, and introducing a system where business rates income fluctuates with economic cycles. Introduce more frequent revaluations to every three years, ensuring that rates bills more closely reflect changes in the property market and wider economy.
- Focus the relief system on rewarding investment by providing time limited exemptions for new store developments and letting businesses offset their capital investment against their rates bills.
- Remove more businesses from the rating list altogether to reduce the burden on the Valuation Office Agency to complete valuations and process appeals, and to exempt the smallest properties from business rates altogether and requiring others to pay a small flat rate charge.

- Review schemes used to determine rateable values in sectors where rental value is deemed unfit for this purpose, or is not widely available. Specifically:
    - Review the existing scheme for forecourts that leads to disproportionate rates bills or these stores.
    - Investigate sectors where new schemes could help to make the system fairer, notably on line distribution centres that currently pay very low rates

- Remove free to use ATMs from the rating list completely in recognition of their importance of giving consumers access to their money and encouraging spending on high streets.

Alcohol and Tobacco Policy

- Introduce no further alcohol or tobacco duty increases in the Autumn Financial Statement or 2016 Budget.

- Increase enforcement activity on alcohol duty fraud at local level.

- Focus on combating private sales in the illicit trades.

INTRODUCTION

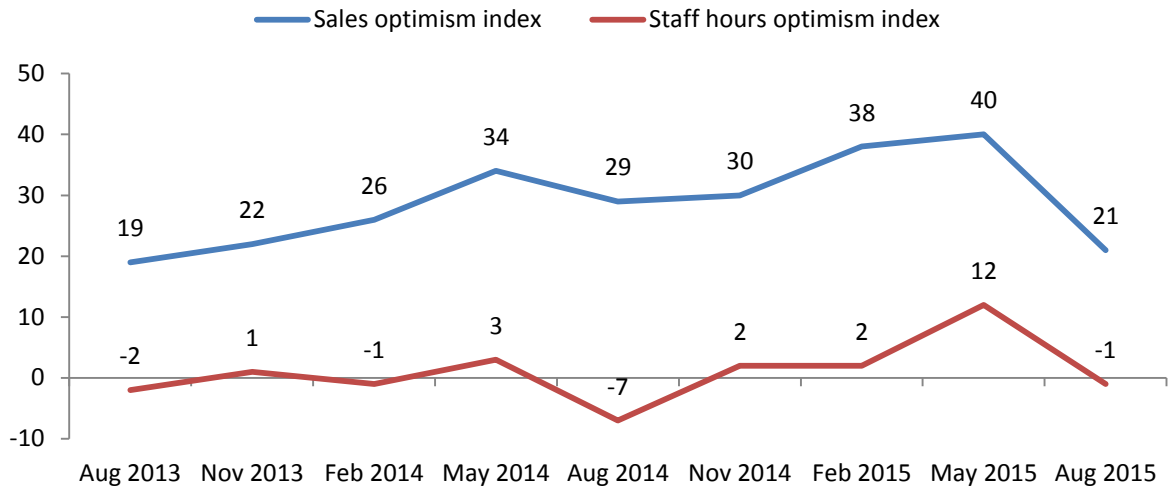
ACS (the Association of Convenience Stores) welcomes the opportunity to provide evidence in advance of the 2015 Autumn Financial Statement. ACS represents 33,500 local shops across the UK including Spar UK, Costcutter Supermarket Group, Nisa Retail and thousands of independent retailers.

The convenience sector provides employment to over 407,000 people in mainland UK. The overwhelming majority of local shops (75%) are run by small business owners. Therefore, the sector is very entrepreneurial with over seven in ten independent retailers being the first person in their family to run a convenience store, and an increasingly large number of these are aged 30 or under (15%). The value of the convenience sector is estimated at £37.7 billion, over a fifth of the total grocery market.

Local shops have been investing significantly in growing their businesses. The ACS Investment Tracker shows that £293 million has been invested by convenience stores in the last six months. Within this, retailers have focused their invested on refrigeration and store refurbishments. There has been a 35% decrease in investment following the Chancellor's Summer Budget announcements introducing the national living wage and proposals to devolve Sunday trading rules to local authorities.

The graph below is a track of convenience retailer's optimism levels in relation to sales and staff hours. There is a clear reduction in confidence across the board following the July 2015 budget.

Figure I. Sales and Staff Hours Optimism Indices



Optimism for sales and staffing hours has declined significantly since the Summer Budget, as evidenced by Figure I. Retailers have stated that declines in investment and optimism are in large part a direct response to government proposals surrounding Sunday trading and the National Living Wage.

POLICY RECOMMENDATIONS

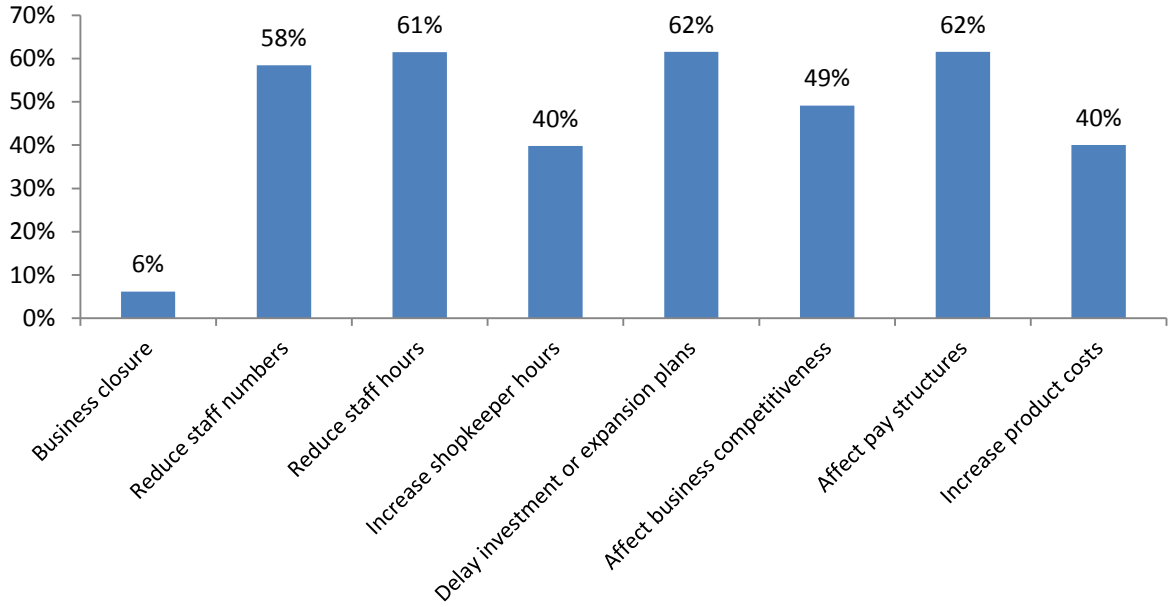
National Living Wage

The introduction of a new premium National Living Wage (NLW) for those aged 25 and over will have damaging consequence for convenience retailers. 78% of employees in the convenience sector are 25 or over[1] and the typical rate of pay for staff in the convenience sector is just above the national minimum wage rate. The significant wage increase to £7.20 in 2016 and the government ambition for the NLW to increase to 60% of median earnings by 2020 will significantly impact on retailer's investment decisions and paid working hours in their businesses.

46% of retailers state the National Living Wage will undermine the competitiveness of their business and 61% indicate they will reduce staff hours in their business[2]. The graph below outlines how retailers will respond to wage increases in their business.

[1] ACS Local Shop Report 2015
[2] ACS National Living Wage Survey 2016

Figure II: Retailer Responses to the 2016 National Living Wage



Reducing staff hours and numbers, squeezing pay structures and delaying business investment are the options that retailers will look at to mitigate the impact of National Living Wage pay increases. Retailers are clear that increases in the Employment Allowance and reductions in Corporation Tax do not offset the increase in wage rates. In correlation with ACS' Investment Tracker, a strong majority of retailers plan to delay their investment or expansion plans in response to higher employment costs. With the National Living Wage representing an unprecedented above inflation increase on wage rates, these responses to employment costs will be exacerbated as we move closer to 2020 and the £9.35 60% of median earnings rate.

As well as further considering the discreet impact of the national living wage on businesses, the Government should look at other policy areas where measures could be implemented to reduce the overall cost impact on local shops and thus limit resultant job losses and declines in investment. Retailers have identified reductions in business rates, removing full liability of statutory sick pay from employers and reducing the cost of automatic enrolment as areas of public policy from which the Government should look to mitigate the cost of the national living wage.

Figure III: Support for measures to mitigate the NLW

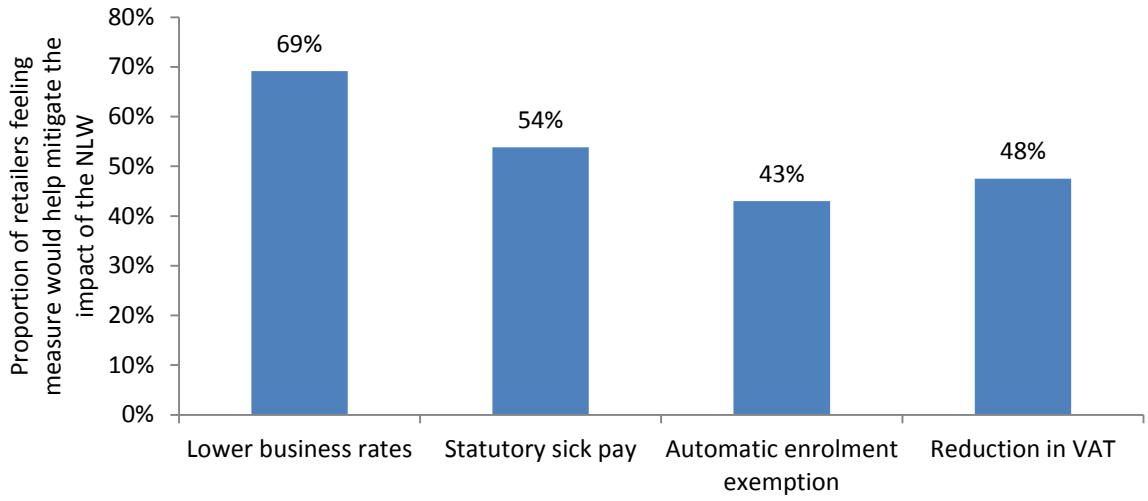


Figure III demonstrates that 69% desire lower business rates, 54% want statutory sick pay and 43% want exemption from automatic enrolment[3]. While ACS commends the government for increasing the Employment Allowance, it provides comparatively small compensation for convenience stores. Savings made by the increased Employment Allowance equate to between 0.3% and 13% of the costs of the incoming National Living Wage. It is also important to consider that 14% of independent businesses in the sector will save less than £1000 from this because they are already under the upper limit of the existing employment allowance. In addition, measures within the Finance Bill to cut corporation tax to 19% by 2017 and 18% by 2020 will not help convenience retailers with low profit margins.

The Chancellor's intervention in the setting of wage rates, by introducing the National Living Wage, has serious implications for wage rate recommendations in the coming years. This intervention has undermined the value of the Low Pay Commission (LPC) and their objective monitoring, evaluation and assessment of impact on employees and employers. Instead the LPC are now working to a target that they must meet irrespective of the impact it will have on the labour market. The politicisation of setting wage rates will mean that all political parties are motivated to come to elections promising ever higher minimum wage rates. For future economic stability, we urge to Government to give the Low Pay Commission more powers and independence to set future minimum and living wage rates.

We have enthusiastically welcomed the business rates discount offered by the government in the last two years: £1,000 in 2014 and £1,500 in 2015. This discount has supported the high street and given retailers the confidence to invest in their businesses. Faced with a significant increase in employment costs, and pressures from possible Sunday trading devolution, local shops would benefit from this discount being increased to £3,000 per site. This would mitigate, on average, between a half and a third of the first year impact of the national living wage on small convenience store businesses, and help those retailers to maintain and grow staffing levels and investment instead of cutting back as many currently intend to do.

[3] ACS National Living Wage Survey 2016

We would also like the government to use the Autumn Financial Statement as an opportunity to give further help to larger businesses in our sector that are heavily impacted by the national living wage and other staff costs. At present, a business operating, for example, 200 convenience stores would benefit by just under £50,000 per year from the business rates discount, as opposed to £300,000 per year for 200 individual stores or £600,000 per year under our proposal for a £3,000 business rates discount. This is because state aid rules cap the amount that a single business can receive from this discount at £200,000 over a three-year period. We recommend that the Treasury considers ways of supporting these businesses that comply with EU law, for example using a lower multiplier for high street businesses (as currently defined in the discount) to produce a saving. An alternative approach may be to off-set contributions by high street businesses through the proposed apprenticeship levy against high street business rates discounts that cannot be claimed due to state aid rules.

ACS would welcome the opportunity to discuss these options with ministers and officials to help build on the excellent policy of business rates discounts.

Recommendations:

- The LPC remit should be extended so that they can set future rates and to avoid political interference.
- Freeze the National Minimum Wage rate to encourage job creation
- Mitigate increased wage costs through lower business rates, statutory sick pay, and automatic enrolment exception
- Increase the valued business rates discount system to £3,000 per store as a measure to mitigate part of the initial impact of the National Living Wage
- Look into ways to support larger businesses that will also be negatively affected by an increase in employment costs

Sunday Trading

There is no economic case for reforming Sunday trading laws because extending opening hours does not increase sales, it displaces sales from other parts of the retail sector. Research produced by Oxford Economics on behalf of ACS during the Olympics clearly shows that trade is displaced from small store to large stores when Sunday trading laws are removed. Convenience stores with one or no supermarkets in a one mile radius saw a 4% sales decline on affected Sundays, while those with two supermarkets within a mile saw a 4.8% decline. Stores with five or more supermarkets in a two mile radius saw a decline in Sunday sales of over 7%.

During the Olympics overall retail sales figures dropped, with the BRC Sales Monitor for August 2012 showing a 0.4% decline while the Office for National Statistics recorded a 0.2% decline in retail sales. The latest economic analysis shows that if all areas deregulated an overall net loss of 3,270 jobs in the retail sector would result from current proposals to

devolve Sunday trading powers to local authorities or metro-mayors[4]. For the convenience sector this would mean £870 million in lost sales.

Recent public opinion polling[5] from September 2015 shows that consumers overwhelmingly support existing Sunday trading laws, with 67% of the public supporting the status quo. 60% assert that Sunday is a special day that allows time to be spent with family and friends and only one in eight people don't think there is enough time to shop under currently Sunday trading hours[6].

We strongly oppose assertions that devolving Sunday trading legislation will support high streets. In reality, a change to the law will benefit large out of town retailers. ACS surveyed 70 local authority chief executives to understand the approach that local authorities would take. The survey shows that 52% of authorities would select either out of town supermarkets, out of town retail parks or large shopping centres as areas they would deregulate. More than six in ten agree that devolving Sunday trading powers would cause confusion for consumers as trading laws could differ across authorities.

The survey showed a clear correlation towards local authorities' decision-making being influenced by neighbouring authorities. 45% state they would feel pressured to relax trading laws if a neighbouring authority did so. We believe that the devolution of Sunday trading would result in a 'domino effect', resulting in the extension of trading hours across the country[7].

We have serious concerns about the quality and presentation of the evidence that the Government has used to justify the case for reforming Sunday trading laws. The Government draws heavily on a 2006 study by Indepen, despite this work being almost ten years old and from a time when the market was different. The evidence from the Centre for Economic Performance is misrepresented in the consultation paper. This analysis shows a 0.14% increase in sales that could arise from these proposals – but the government have claimed a 12.5% increase in sales.

ACS is part of the Keep Sunday Special campaign group that are making important arguments about the impact of Sunday trading on families and shop workers. Research by the Social Market Foundation has found that changes to Sunday trading laws fail the Government 'family test'. In August 2014, Prime Minister David Cameron launched his 'family test' by announcing that "every single domestic policy that government comes up with will be examined for its impact on the family". This is because extended trading hours will have a negative impact on lower and middle income workers and their ability to spend time with their families.

Single parents are likely to face huge challenges to find available childcare on a Sunday when they take on more work on a Sunday, with three-quarters of childcare providers not open at all on a Sunday[8]. Similar challenges exist in relation to caring for elderly, sick or disabled relatives and preventing loneliness. The Social Market Foundation report is available here.

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[4] Oxford Economics: Economic Impact of Deregulating Sunday Trading. September 2015.
[5] Populus September 2015
[6] Populus – ACS Attitudes towards Sunday trading
[7] ACS Chief Executives Sunday trading survey 2015
[8] Social Market Foundation. Sunday trading: Applying the family test.

Recommendations:

- The Government must drop proposals to Devolve Sunday trading rules to local authorities. These proposals would result in no economic or social benefit, and are not wanted by the general public.
- The Government should review the evidence about the economic impact of devolving Sunday trading rules and reflect on the impact on high streets and local shops.

Business Rates

ACS has submitted evidence to the Treasury's Business Rates review calling for the business rates system to be overhauled. The system must be simpler, more transparent for rate payers and use the rates system to incentivise businesses to invest. We have called for more frequent revaluations to ensure that the system more closely reflects fluctuations in the economy and non-domestic property market.

We believe that the system must incentivise retailers to invest in their businesses, not penalise them. Currently if retailers improve their premise by adding an air conditioning unit, shelving, CCTV cameras or cash machine their rating liabilities increase. This is a significant deterrent to investment which should be addressed in the Government's review. We continue to support the business rates system being based on rental values but would like to see the system significantly simplified by removing more businesses from the rating list and reducing the number of businesses that the Valuation Office have to assess.

The existing Small Business Rates Relief scheme is highly valued by retailers. 38% of shops currently pay a reduced level of business rates and benefit from some form of business relief[9]. We are concerned about any proposals to devolve business rate relief control to local authorities. This would cause businesses in the retail sector and others to lose their rate reliefs as authorities seek to make short-term savings. Therefore, the Chancellor should safeguard rate relief by retaining its administration nationally to provide stability for small businesses.

We would like to see a review of rating schemes that are currently not based on rental data such as petrol forecourts and ATMs. These hereditaments are based on turnover, which results in significantly higher rating bills. We urge the Government to review rating petrol forecourts based on turnover and to remove free to use ATM machines from the rating list altogether due to their important role in allowing communities to access cash. ACS' full submission to the Treasury's Business Rates Review is available here.

We are concerned about the impact that the Chancellor of the Exchequer's business rates announcement at Conservative Party Conference will have on ratings. Local authorities already have the power to use discretionary rate relief, which is 50% funded by Government, to reduce rates for any business in their area. However, they have failed to use this power

[9] VOLS May 2015

extensively because of budget restraints. We are therefore sceptical if local authorities will be willing to use these new powers to reduce business rates multipliers.

ACS awaits details on the government's response to their consultation on the business rates system, as are set to be revealed in the Autumn Financial Statement.

Recommendations:

- Break the fixed, rising yield from business rates by reviewing the mechanism for annual business rates increases, and introducing a system where business rates income fluctuates with economic cycles.

- Introduce more frequent revaluations to every three years, ensuring that rates bills more closely reflect changes in the property market and wider economy.

- Focus the relief system on rewarding investment by providing time limited exemptions for new store developments and letting businesses offset their capital investment against their rates bills.

- Remove more businesses from the rating list altogether to reduce the burden on the Valuation Office Agency to complete valuations and process appeals, and to exempt the smallest properties from business rates altogether and requiring others to pay a small flat rate charge.

- Review schemes used to determine rateable values in sectors where rental value is deemed unfit for this purpose, or is not widely available. Specifically:

    - Review the existing scheme for forecourts that leads to disproportionate rates bills or these stores.
    - Investigate sectors where new schemes could help to make the system fairer, notably on line distribution centres that currently pay very low rates

- Remove free to use ATMs from the rating list completely in recognition of their importance of giving consumers access to their money and encouraging spending on high streets.

Alcohol and Tobacco Duty

Alcohol and tobacco are important product ranges for the retail sector. Alcohol encompasses on average 13.8% of UK sales in convenience shops, while tobacco covers 18.8% of sales[10]. The high proportion of sales that these products represent for small shops means that retailers are efficient at enforcing legal standards and restrictions. Age verification schemes such as 'Challenge 25' have proven highly effective at deterring underage sales, reinforced by annual staff training on the sale of age restricted products.

[10] Local Shop Report 2015

However, the illicit trade poses a growing threat to legitimate sales. The illicit trade sells cheap goods to underage consumers as well as more harmful products, and undermines the sale of legitimate goods in shops. ACS fully supports a robust and flexible framework for tackling the illicit trade. If retailers are found to be culpable for the sale of illicit goods, they should be sanctioned and we endorse the removal of retailer's alcohol licence for engaging in the illicit trade – this is an under used sanction which we know is an affective deterrent.

Raising taxes by two per cent above the rate of inflation will only benefit the illicit trade. Current duty levels on alcohol and tobacco are still sustaining and multiplying trade in illicit goods. In HMRC's Measuring Tax Gaps 2015 report, the mid-point revenue loss to the Exchequer for alcohol is £1.2 billion and the losses for HMT on tobacco are £2.1 billion[11]. ACS believes that increases in duty rates promote the illicit trade by growing the differential between legal and illegal products. The Government must consider this alongside revenue raising and public health when setting duty rates.

Increasing the resources and activity of HMRC's enforcement agency against rogue businesses and individuals that trade non paid duty goods is imperative. Proactive and intelligence led enforcement activity is the biggest deterrent against non-duty paid alcohol and tobacco sales. Better communication and enforcement activity at a local level would act as a crucial tenet of this enforcement alongside increased penalties and custodial sentences.

Across government agencies and national organisations, collaboration is necessary to prevent the growth of the illicit market. The Home Affairs Select Committee report found the HMRC's approach was not effectively integrated to deter illicit tobacco in the UK[12]. ACS believes that there should be a joint effort between agencies to focus on the most common sources of illicit trade, friends (59%), followed by 'tab houses' – sales from private houses (34%). Sales from private residences are becoming increasingly significant, with 34% of tobacco purchasers having visited a 'tab house' compared to 15% in 2009. A combined effort that focuses on private sales is therefore necessary to combat illicit trade.

Recommendations

- Introduce no further alcohol or tobacco duty increases in the Autumn Financial Statement or 2016 Budget.
- Increase enforcement activity on alcohol duty fraud at local level.
- Focus on combating private sales in the illicit trades.

For further information on this submission please contact Steve Dowling at steve.dowling@acs.org.uk or on 01252 515001.

[11] HMRC: Measuring Tax Gaps 2015.
[12] Home Affairs Committee: Tobacco smuggling: First Report of Session 2014-15