ACS Submission: Business Rates Review 2015

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the Government's Business Rates Review consultation. ACS represents over 33,500 local shops across the country including the Co-operative Group, Spar UK, Costcutter Supermarkets, One Stop and thousands of independent retailers.

The business community is united in its view that the business rates system is no longer fit for purpose in the 21st century. The system needs to be fundamentally reformed to flex more closely with changes in the economy and occupation of non-domestic property. We want to see the system reformed so it is fair for all businesses, internationally competitive and can be a tool to reward investment. There are many elements of the current system that discourage new business investment and rating schemes that do not reflect their market or social value. The current system is also bureaucratic and inefficient, characterised by many appeals, and uncertainty over rating decisions. This review offers an opportunity to make the system more efficient and less costly for the taxpayer and for businesses.

We believe that the review offers the Government a great opportunity to transform the business rates system from a brake on growth, to an enabler of investment and job creation. This submission gives ACS' responses to the questions posed in the consultation paper, and sets out some general ideas for reforming the current system. We would welcome the opportunity to work with HM Treasury to further develop these options based on VOA data and other relevant sources. This submission uses data from ACS' Voice of Local Shops Survey of 1,100 retailers, Local Shop Report 2014 and Cost Barometer. For more information on ACS' research projects, please visit: www.acs.org.uk/research

ACS has set out below some of the key recommendations from our answer to the 15 consultation questions.

1. 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.

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

3. 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.

4. 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 rats altogether and requiring others to pay a small flat rate charge.

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

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

6. 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.

For further information on ACS' submission, please contact Edward Woodall, ACS Head of Policy and Public Affairs, Edward.woodall@acs.org.uk or 01252 533014.

Question 1: What evidence and data can you provide to inform the government's assessment of the trends in use and occupation of non-domestic property?

1. The occupation of non-domestic property in the retail sector has changed significantly over the last decade, which has translated into increased vacancy rates on UK high streets. There have been a number of factors that have driven this change, such as the economic downturn, change in consumer shopping habits and the growth of online shopping.

2. The Local Data Company estimate current vacancy rates for retail premises are at 13%[1], which returns to 2010 levels, but is still worryingly high. Vacancy rates are even starker when you look regionally, with towns in northern England experiencing vacancy rates of up to 18.8%[2]. According to the Local Data Company, there are twice as many vacant shops in the north of England than in the south.

3. In the convenience market, there has been considerable growth over the last five years driven largely by investment from multiple retail operators looking to increase their convenience store portfolio. This has increased the cost of prime location convenience store sites. Retailers have targeted new types of premises that have not conventionally been used for grocery retailing, such as on-trade premises, restaurants, coffee shops and pharmacies.

4. The burden of rates on convenience store retailers differs greatly depending on their size, location and operating model. ACS' Cost Barometer[3], developed by the Oxford Institute of Retail Management, has segmented different types of convenience store formats and broken down the different costs they face, including rates. Business rates as a percentage of their overall costs ranges from 2% for an 'Urban Treat Shop', the smallest store, which is most likely run by an independent retailer, and 9% for a 'Local Mini Supermarket', the largest store in a prime location.

5. The next revaluation is likely to result in higher rates costs for all convenience stores despite growth in the sector not being shared evenly. According to IGD data, independent retailers accounted for 63% of the convenience market in 2000, but in 2014 only account for 39%. Multiple retailers by contrast have increased their convenience store ownership share from 12% in 2000 to 36% in 2014.

Question 2: Is there evidence to suggest that changing patterns in property usage are affecting some sectors more than others?

6. Across the convenience sector we have seen a decline in the traditional small format newsagent run by an independent retailer. Instead, larger format stores with a full grocery offer have grown considerably. Retailers are targeting larger format premises (up to 280 square metres) in high footfall areas to fit in a larger fresh food offer and an increased range of services for consumers. Business rates costs for

[1] Local Data Company: Vacancy Rates
[2] Local Data Company: North South Divide
[3] See Cost Barometer Annex A

their premises are much higher meaning rates bills have become a much greater consideration in retailers' investment decisions over the past five years.

7. Movement towards these premises is also the result of consolidation of services that used to be found in a range of different premises on the high street. ACS' Local Shop Report 2014 highlights this through the range of new services offered within convenience stores for example; coffee to go (27%), Post Office (21%) prescription collections (2%), and seating areas in store (3%)[4].

8. In terms of size and ownership of sites, independent retailers tend to occupy smaller footprint stores compared with multiple chain retailers. 49% of independent retailers' stores are less than 999 square feet compared to 24% of multiple retailers[5]. Independent retailers are more inclined to buy sites instead of negotiating a complicated lease agreement; with 67% of independent retailers owning their shop premises. Only 9% of independent retailers own stores which are between 2,000 and 3000 square feet in size compared to 36% of multiple retailers.

9. Forecourt retailers are the segment of the convenience market that has seen the starkest movement in property usage. According to Barber and Wadlow[6] there were 8,616 forecourts in the UK in 2014 down from 40,000 in 1960. This is in part a reflection of the high burden of business rates on forecourt retailers' stores because a turnover based rating methodology is used instead of the standard zoning and square footage methodology used for the rest of the convenience market. At the last revaluation, forecourt retailers saw their business rates bills more than double.

10. Forecourts rely significantly on shop sales to make their fuel sites profitable because the margin on fuel sales is very low. Turnover based rating methodology has a direct impact on the bottom line of all forecourt retailers' profits and this rating approach is stifling growth in the forecourt sector. We strongly urge the Treasury and the VOA to review the rating methodology used for forecourt convenience stores and move towards a zoning method.

11. Set out below are some comparisons between Petrol Forecourt Sites (PFS) and standalone convenience stores. These examples highlight the vast difference in rateable values for convenience stores on fuel sites because they are based on a turnover rating methodology.

Example 1 Oxford:

- PFS shop Rateable Value £67,500 shop size 112 sq. m.
- Standalone within 1.4 miles RV £56,500 floor area 351 sq. m

Example 2 Milton Keynes:

- PFS shop RV £59,000 shop size 160 sq. m.

---

[4] ACS Local Shop Report 2014
[5] ACS Local Shop Report 2014
[6] Forecourt Property Market Update

- Standalone within 0.5 miles RV £23,500 floor area 237 sq. m.
- Standalone within 0.9 miles RV £37,500 floor area 314 sq. m.

Question 3: What, in your view, does this evidence suggest about the fairness and sustainability of business rates as a tax based on property values?

12. There is an inherent unfairness in the existing business rates system that penalises retailers trying to expand and invest in their businesses. We want to see the business rates system reformed to incentivise growth and investment, not create drag. We believe there is a clear unfairness in annual business rates increases and that business rates in the long term cannot be fiscally neutral.

13. We believe that business rates must flex more closely with the economy by changing the annual RPI inflation link, delivering more frequent revaluations and introducing a permanent cap on rates to increase certainty for businesses on the rates they will pay. Such reforms would increase fairness in the rating system and prevent a situation where business rates increase by 10% in the three years that the economy is at its lowest point.

14. Remodelling the rate relief system to focus more on investment reliefs would also increase fairness and be more conducive to improving existing sites and encouraging new developments. Currently, a large number of multiple small format store operators receive no relief from the rating system despite being recognised as a small business elsewhere in the policy and tax system[7]. The relief system could be reformed by exempting new store developments from rates in their first year or allowing businesses to off-set capital investment made in plant and machinery investment for the first year.

15. The Government have prioritised incentivising investment in the tax system elsewhere, for example, an extension of the Annual Investment Allowance[8] to £500,000 to encourage plant and machinery investment. However, this ignores the fact that businesses still have to pay business rates on these investments. The rating of premise should be based on the "shell" of the property, not the additional improvements made by the owner to improve it. In the retail sector, investment in plant and machinery is penalised by higher business rates bills for items such as: security cameras, air conditioning units and pallet racking. The inclusion of these items on the rating list is confusing and disincentives them from improving or expanding their business.

16. ACS' Voice of Local Shops survey of 1,100[9] retailers shows that retailers are making significant investment in their businesses. 2% of retailers are planning to buy new stores and 28% are planning to refurbish or refit their existing stores. The top three

[7] Small and medium size businesses are usually defined by employee numbers; micro 0-9, small 10-49, medium 50-249. A convenience store operator that runs 8 convenience stores would still be considered a small business under this definition as on average they would employ 56 members of staff. The Business rates system does not offer any support small enterprise that operate more than one store.
[8] Annual Investment Allowance: Increase to £500,000 for extended temporary period
[9] ACS Voice of Local Shop Survey February 2015

investment areas that retailers are focusing on are: new energy efficient refrigeration (17%), store refits (14%) and new shelving units (14%). These are investments to support the core infrastructure of the store, help retailers trade more competitively and create more jobs in the economy. Where possible, the rating system should recognise and reward these investments.

17. The rating system includes a number of rating schemes where only poor or unreliable data is available to the VOA. For example, forecourt retailers (as outlined in Question 2) or Automatic Teller Machines' (ATMs) ratings are again based on turnover, not occupied area, and there have been a number of inconsistent rating approaches that have caused confusion. We would support a full review of this scheme to find alternative rating approaches.

18. We believe that ATMs are a high street enabler providing shared benefits to a range of traders, allowing consumers to access their cash and spend it within their local communities. We have worked with the Department for Communities and Local Government[10] to promote the use of discretionary rates relief by local authorities to exempt ATM machines from rating, but there are very few examples where this has occurred. We therefore believe that the Government should consider removing ATMs from the rating list completely.

19. The benefits of removing ATMs from the rating list would be that more consumers are able to access their cash free of charge and spend it in local shops and high streets. We strongly believe that ATMs are beneficial to all businesses on high streets and as long as they are free to use, should be exempt from business rates. Currently 59% of convenience retailers have ATM machines in store[11].

Question 4: What evidence is there in favour of the government considering a move away from a property based business tax towards alternative tax bases? What are the potential drawbacks of such a move?

20. The Government's previous consultation on business rates has shown that the business community continues to favour individual rating assessments based on rental values. ACS supports this view and strongly opposes any moves towards a sales based or turnover tax, this is already accounted for by Corporation Tax and there are examples within the existing rating system where turnover based methodologies are more harmful.

21. Other options[12] explored for alternative rating methodologies, such as energy efficiency and employment levels, would not work for the convenience sector. The range and diversity of business formats and premises in the sector would make it too difficult to make a consistent assessment of energy efficiency to derive clear comparisons. In terms of employment levels, 24% of convenience retailers do not

[10] ACS/ DCLG Discretionary Rate Relief Guidance for Local Authorities
[11] ACS Local Shop Report 2014
[12] BRC: Road to Reform

employ staff[13] meaning they would not receive rate relief, but it's often the smallest businesses that need the most support.

Question 5: What examples from other jurisdictions and tax systems should the government consider as part of this review? What do you think are the main lessons for the business rates system in England?

22. We are not aware of a single system that we would completely advocate, but ACS can provide support to the Treasury in contacting international business organisations representing retailers to gauge views on alternative property taxation systems.

23. The Scottish Small Business Bonus Scheme has a different approach to rate relief thresholds that could be more meaningful for small format retailers. 100% relief is offered for businesses with up to £10,000 RV meaning more retailers are captured in the relief scheme.

24. There are also further reduction in Scotland for ratepayers at the top end of the scale and multiple site operators between £18,000 and £35,000 RV. They are still offered 25% relief for each of their premises. For many growing businesses operators in the convenience sector this relief on multiple premises would be beneficial for them as they currently receive no rates relief beyond two premises.

Question 6: How can government use business rates to improve the incentive for local authorities to drive local growth?

25. ACS is a long standing advocate of existing discretionary rate relief powers, set out in the Localism Act, currently used to distribute the retail rate relief scheme. As part of the Government's Future High Street Forum, ACS produced guidance for local authorities on discretionary relief called; *Discretionary Rate Relief and High Streets*[14].

26. The purpose of the document was to share case studies with local authorities on how they can use discretionary rate relief to incentivise growth and investment. For example, relief for vacant premises on parades to encourage new entrants, temporary support for struggling businesses and exemptions for 'high street enablers' such as ATMs and WiFi.

27. We recognise that discretionary relief is half funded through local authority budgets which are significantly restrained, but believe this type of relief could be meaningfully used to incentivise growth. We believe that for discretionary rate relief to be truly impactful the Government must be willing to provide more funding for this type of relief for specific priority premises or through underwriting a greater part of the funding in the long term.

[13] ACS Local Shop Report 2014
[14] Discretionary Rate Relief and High Streets; Local Authority Guide

Question 7: What impact would increased local retention of business rate revenue have on business growth? What would the impacts be on local authorities?

28. The announcements in the March 2015 Budget for Greater Manchester and Cambridgeshire authorities to retain 100% business rates growth is a welcome move. Industry will be monitoring the impact that these proposals will have on business growth in these areas. The retention of business rates at local levels could be positive depending on how local authorities reinvest this growth in infrastructure to support business and how long term they are able to plan.

29. The retention of business rates growth at local level also presents risk for local authorities as it's very difficult to predict the level of revenue they will raise. This uncertainty makes it difficult for local authorities to make long term borrowing against the predicted business rates growth. If local retention of rates is to be extended across the country, the Government must do more to underwrite local authority risk.

30. The behaviour of local authorities when given more autonomy over retaining business rates income should be monitored closely. ACS fully supports the principle of giving councils and regions the responsibility for creating an environment where businesses want to invest and trade. However, we have also seen examples in, for example, the alcohol licensing system where powers have been stretched with the effect of creating burdens, barriers and uncertainty for businesses, hampering investment and growth.

Question 8: What other local incentives should the government consider to further incentivise business growth?

31. Business rates cannot be seen in isolation of other policies that affect the non-domestic property market. Planning policy is important in ensuring there is a flexible system for converting business premises to other uses. This is especially powerful in areas where there is surplus retail space meaning it's not a viable investment decision for any potential retail investor. For the property owners permitted development rights and flexibility in the use class become an important tool for making the property viable to other investors like leisure or food.

32. The difficulty of local rates retention and incentivising growth is that local authorities may be tempted to approve large developments that provide short term gain instead of encouraging long term sustainable business rates growth. The Government should consider how they can encourage sustainable growth within the local rates retention policy. This would not involve targets, but provide greater rewards for priority developments that create jobs, provide services to isolated communities or fill unoccupied properties.

33. ACS' submission to the Local Government Finance Review in 2011[15] highlights three priority areas for the review; delivering sustainable growth through planning, business rates policy, the creation of long term development plans for sustainable growth and finding new funding for discretionary rate relief.

Question 9: Should business rates be reformed to make them more closely reflective of wider economic conditions and if so, how?

34. ACS supports breaking the fixed, rising yield from business rates and more closely matching business rates with economic circumstances. Like no other tax, business rates yield is secured year on year regardless of economic circumstances – this is not sustainable.

35. As set out in Question 3, we believe that business rates must flex more closely with the economy by changing the annual RPI inflation link, delivering more frequent revaluations and introducing a permanent cap on rates increasing certainty for businesses on the rates they will pay. Such changes have industry wide support and are achievable in time for the 2017 revaluation.

36. Options for a fairer adjustment to business rates could include: an average RPI rate over one year, a formula based on a wide range of factors, or removing the multiplier completely and letting changes in the rateable value determine changes in the rates payable. ACS has suggested a three year revaluation. This is proportionate in balancing the resources available to the VOA and reflecting fluctuations in the economy and non-domestic property market.

37. ACS has also campaigned for a permanent cap to be placed on the annual increases of business rates. The temporary 2% cap is a welcome measure but businesses need more certainty that rates bills will not spike like they did in 2012 (5.6%) and 2013 (3.4%). The current 2% cap matches the Government's inflation target which has a direct monetary link that will fluctuate with the performance of the economy.

Question 10: If business rates remain a property tax, how do you suggest business rates could take into account the individual circumstances of businesses such as their size or ability to pay rates?

38. The Government has already shown that it can react to the needs of ratepayers by introducing schemes to support certain ratepayers. The Retail Rate Relief scheme is a prime example where the Government can intervene and target support at certain traders. The £1,000/ £1,500 relief on the rates paid by businesses has made a significant difference to their operating model and the money saved has been reinvested in stores and staff.

[15] Link

39. ACS would support a significant simplification of the rating system, which would involve removing more businesses from the rating list and reducing costs for the Valuation Office Agency (VOA). Currently the VOA spends £118 million, which is 60%[16] of its annual budget, on business rates administration. This could be reduced by removing or no longer requiring rating for the large number of small business at the bottom of the scale that account for only a small proportion of the overall rating yield.

40. We believe that businesses in the £6,000 RV bracket should permanently receive 100% business rate relief. The 100% relief has existed over two parliaments and is essential to the smallest businesses. However, further reform could be made to the middle £6,001 RV to £12,000 RV bracket, making it easier to administer for the VOA.

41. Instead of tapering relief the Government could consider introducing a flat rate charge for businesses. A flat rate charge could be linked to the Stamp Duty Land Tax (SDLT) rate paid on the premises value or long term lease. Charging a flat rate linked to an existing property assessment mechanism reduces the burden on the VOA to complete rating assessments and process appeals.

42. There is a danger that the system suggested above could create cliff-edges in the rates bills paid, for example a property with a rateable value of £12,001 would pay far more than property with a rateable value of £11,999. To address this, we believe that HMT should consider a system similar to stamp duty, with the rate payable only on the portion of rateable value subject to that multiplier. This system would allow more subtle use of multipliers for different ranges of rateable values. The table below is purely illustrative, and demonstrates how such a system could work.

Rateable value range	Flat rate	Marginal Multiplier	Total bill	Notes
< £6,000	£0	-	£0	
£6,001 - £12,000	£1,000	-	£1,000	
£12,001 - £25,000	£1,000	48p (current small bus, multiplier)	£1,000, plus 48p per £1 above £12,000	Example of RV £20,000, bill = £4,840 (£1,000 + £3,840)
£25,001 - £50,000	£1,000	49.3p (current full multiplier)	£1,000, plus 48p per £1 between £12,001 and £25,000, plus 49.3p per £1 above £25,000	Example of RV £40,000, bill = £14,635 (£1,000 + £6,240 + £7,395)
>£50,001	£1,000	50.6p (indicative large business premium multiplier)	£1,000 plus 48p per £1 between £12,001 and £25,000, plus 49.3p per £1 between £25,001 and £50,000, plus 50.6p per £1 above £50,000	Example of RV £100,000 bill = £44,865 (£1,000 + £6,240 + £12,325 + £25,300)

[16] VOA Business Plan 2014-15

43. Whilst this may not provide a full solution to rating reform, the key components of positive reform include: reducing the number of hereditaments on the rating list, reducing business rates appeals and simplifying the rating calculation for the ratepayer. The Government should also consider reviewing rating scheme to ensure they are fair and relevant for example forecourt retailers and ATMs. These rating schemes are out of kilter with the rest of business community.

44. We urge the Government to look again the application of Rural Rate Relief Schemes. Currently rural businesses singly serving a population of below 3000 people can apply for 100% business rate relief from their local authority. Qualifying businesses receive 50% mandatory relief on their business rates, with the rating authority (usually the District Council) then able to top this up by a further 50% at its discretion. However with budgets squeezed at local authority level some are choosing not to fund rural rate relief. Once a business has applied for rural rate relief they cannot receive the benefits of other schemes, like the retail rate relief scheme or other small business rate reliefs. This means some rural businesses are left only receiving the 50% mandatory relief and would have been better placed getting small business rate relief. The Government must look at how they can ensure that rural businesses are not put at risk or the communities they serve by funding rate relief fully or in part reducing the burden on local authorities.

45. We also believe that the Government should recognise the growth in omni-channel retailing, especially online, which has resulted in a shift of property usage in the retail market. Businesses have reviewed the role and cost of their physical stores on the high street compared with the substantially lower cost of running a business online. This has had an impact on vacancy rates on high streets and there is a strong case for a review of the rating methodology used for out of town retail distribution warehouses so they reflect the much higher market share they now command.

Question 11: How does the proportion of total operating costs accounted for by business rates vary by the sector and size of a business?

46. ACS Cost Barometer segments the sector in seven different store types and shows the cost of business rates as a percentage of overall business costs. The full report is available in Annex A attached to this submission and the seven store segmentations are set out below.

47. ACS Cost Barometer Store Segmentations:

a. **Urban Convenience Stores - Business Rates Cost = 3% of gross profit**

Typical turnover annual turnover of £1.28 million, located in urban areas providing mid-range product mix.

b. **Local Convenience Stores – Business Rates Cost = 3% of gross profit**

Typical annual turnover of £1.9 million, located in comer locations on estates providing mid-range product mix.

c. Urban Treat Shops – Business Rates Cost = 7% of gross profit

Typical annual turnover of £0.81 million, located in central and corner locations providing a basic product mix.

d. Village Stores – Business Rates Costs = 6% of gross profit

Typical annual turnover of £1.26 million, located in rural locations providing a full or mid product range.

e. Commuter Stores – Business Rates Costs = 5% of gross profit

Typical annual turnover of £0.57 million, located on travel points and intersections providing a basic product range.

f. Local Mini Supermarket – Business Rates Costs = 9% of gross profit

Typical annual turnover of £2.26 million, located in corner, point or central areas and often owned by multiple retailers. These stores offer a mid to full range with additional service offers.

g. Local Family Shop – Business Rates Costs = 8% of gross profit

Typical annual turnover of £0.4 million, located in urban or corner locations providing a basic product mix.

48. ACS would welcome the opportunity to discuss local shop profitability with the Treasury and the VOA. ACS has included the Cost Barometer research as an annex to this submission.

Question 12: What is the impact of the business rates system on the competitiveness of UK businesses? Are there any particular impacts on SMEs?

49. ACS' Voice of Local Shop Survey has found that 32% of retailers have taken action to challenge their rates bill in the last five years. This shows the importance of accurate business rates valuations and the impact on their business. ACS' polling of retailers in 2014 showed that a business rate review and reducing the overall tax burden on their business was one of their top three priorities for the next Government to take action on.

50. Retailers are often concerned about the allocation of charitable rate reliefs and the impact this has on the areas they trade in. Charity shops are currently offered 80% business rate relief, funded centrally, for their stores and in additional local authorities can use their discretionary relief to top this up to 100%. It is often argued that the 20% additional relief offered by councils could also be used to incentivise business growth elsewhere in communities.

51. In some cases significant proliferation of charity shops on high streets can damage the perception of the overall area and impact on the value of rents. If charities are not paying any business rates then Government should consider removing their rental payments from rating calculation in the local area to reduce overall rates bills.

52. As highlighted in ACS' Cost Barometer, business rates represent a significant proportion of a store's overall costs base. The area of most concern is the impact of rates on new store investments and refits of existing stores. When the rating system disincentivises store acquisitions and improvement, competitiveness is affected and growth across the sector is stifled. ACS Voice of Local Shops data has showed that 38% of small shops pay reduced rates on their premises, we would like to see the proportion of small format stores supported by the rates system.

Question 13: How could the government better target support for SMEs given that the size of a company may not be reflected in the rateable value of a property it uses?

53. The Government could support SMEs by lifting more businesses out of the rating system altogether, introducing higher thresholds for rate relief to encompass more businesses. For example, the Government have used the £50,000 RV threshold for the retail relief scheme. This captures more businesses within the scheme and gives them a direct and meaningful discount on their rates bill.

54. The rates system also fails to provide support for small multi-site operators running three to four business premises. Operators at this level make investment decisions on a site by site basis and the property costs make up a considerable proportion of their start-up costs. Providing reliefs for businesses that develop new sites or allowing them to offset their costs in the first year would be extremely beneficial in reducing the risk for new site development. New or redeveloped stores will often not trade competitively for the first year to 18 months.

Question 14: Should investment in plant and machinery, energy efficiency improvements or other similar property improvements, be treated differently by the business rates system? If so what changes could be made?

55. As set out in question 3, investments in plant and machinery and new store developments should have greater recognition in the rating system. Security cameras, air conditioning units and pallet racking investments result in higher rating valuations for premises deterring retailers from improving their stores.

56. Businesses that take the risk to develop or refit new stores should receive reliefs. Convenience store operators looking to secure new premises in prime locations often have to undertake refurbishment of the property that require planning permission, store extensions and parking developments. We would support exempting such changes from the rating list permanently.

Question 15: What evidence and analysis should the government take into account when evaluating the impact of and any changes to the range of reliefs and exemptions present in the business rates system?

57. The Government must consider the impact that any changes will have on job creation, growth and new investment. ACS runs quarterly surveys of 1,100 retailers and can offer the opportunity for the Treasury and other Government departments to ask question directly to retailers. We recently asked retailers what areas of their business they are planning to invest and 15% (7,938 stores) indicated they are investing in areas of their business that are potentially rateable, for example parking and access, air conditioning units, crime prevention and building development/ store refits. The Government must consider how it can limit additional costs on retailers that are investing in their stores.

58. ACS' Investment Tracker provides a quarterly read of retailer's investment plans, this is provided in full in Annex B. The current data shows that convenience retailers of all types are investing extensively in their businesses. In the last quarter convenience store retailers have invested £176 million in their stores. Multiple retailers are spending the most across their retail estates, up to £80 million which on average per store equates to £6,767. Taking into account the investment profiles of different businesses should form part of the Government's deliberations on business rates and reliefs.

Annex A - ACS Cost Barometer

ACS Cost Barometer is available here

Annex B – ACS Investment Tracker

INVESTMENT TRACKER

MAY 2015

GUIDE TO INVESTMENT GROUPINGS:

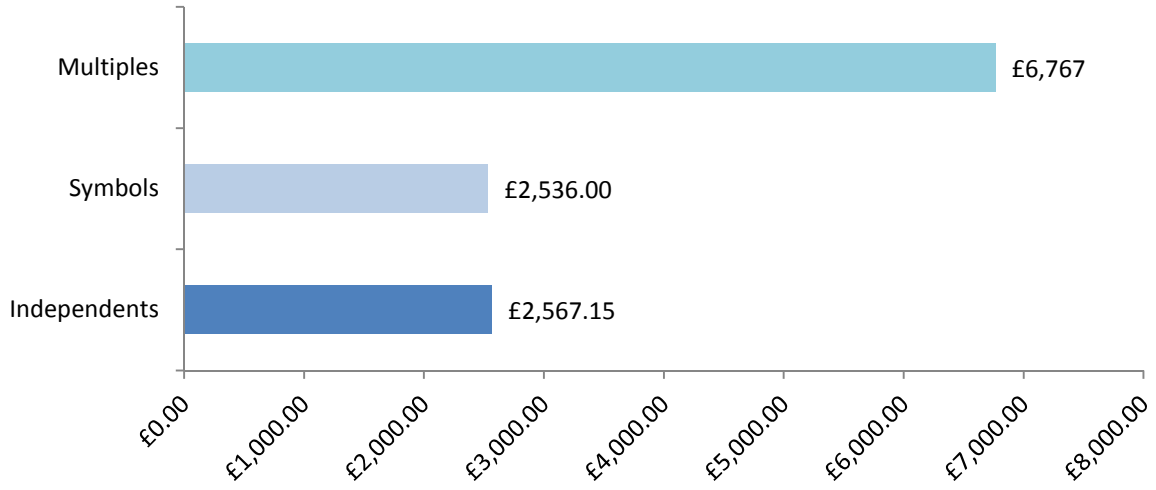
Building	Parking, Access (e.g. wheelchair ramps), Signage, Crime prevention measures, Maintenance, Development, Refits
Tech & Utilities	Till systems, Lighting, Air conditioning systems
Storage	Shelving, Refrigeration, Freezer space

GUIDE TO STORE GROUPINGS:

Independent	These tend to be the smallest businesses in the market
Symbol	These are groups usually organised by a wholesaler that are made up of independent businesses but collaborate in joint buying and marketing initiatives (examples are Spar, Costcutter, Londis, Mace and Best One)
Multiple	Chains of stores run from a head office (examples are Martin McColl, BP and Tesco Express)

AVERAGE INVESTMENT SPEND PER STORE (LAST QUARTER) (VOLS FOR INDEPENDENTS AND SYMBOLS, INVESTMENT TRACKER FOR MULTIPLES)

Symbols and independents invested a very similar amount per store last quarter, while multiples spent around 2.5 times as much.



TOTAL INVESTMENT IN SECTOR

Typology	Average spend	Spend for those	Total number of stores	UK Total Investment

		making investment		
Independents	£2,567.15	£9,272	£22,315	£57,285,991
Symbols	£2,536.00	£9,160	£15,423	£39,112,711
Multiples	£6,767	-	£11,879	£80,388,222
Total	-	-	*£49,617*	*£176,786,924*

Proportion of stores that receive investment in different areas (Last quarter) - ACS Investment Tracker

Despite refrigeration being the biggest area of investment for store owners in terms of money spent, the proportion of stores that receive investment in different areas was much more evenly spread over the last quarter. This likely reflects that some areas are less costly to invest in, but still an important way of improving and maintaining a good environment for customers.

Importantly, some areas received little investment but are obviously still a key service for visitors. For example, only 1% of stores received investment in parking, probably because once parking provision has been set up, it often doesn't require as much further attention.

	Sector average[17]	Of those investing	Number of stores
Signage	4%	26%	1985
Parking	1%	4%	496
Access	1%	5%	496
Shelving	7%	31%	3473
Refrigeration	9%	40%	4466
Tills	2%	10%	992
Freezers	4%	20%	1985
Lighting	4%	24%	1985
Air-con	2%	11%	992
Crime prevention	2%	12%	992
Building maintenance	6%	34%	2977
Building development	1%	8%	496
Full store refits	3%	10%	1489

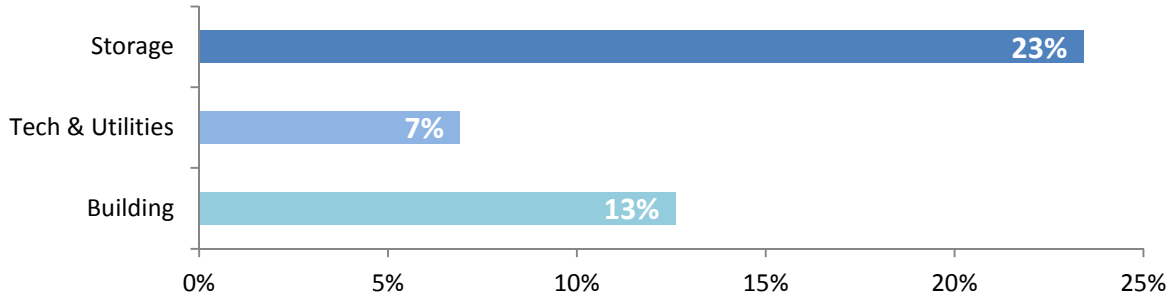
AREAS SHOP OWNERS MADE INVESTMENT IN over the last three months (ACS Investment Tracker for Multiples, VOLS for Independents and Symbols)

Over the last quarter, independents and symbols spent more on storage than tech and utilities or buildings.

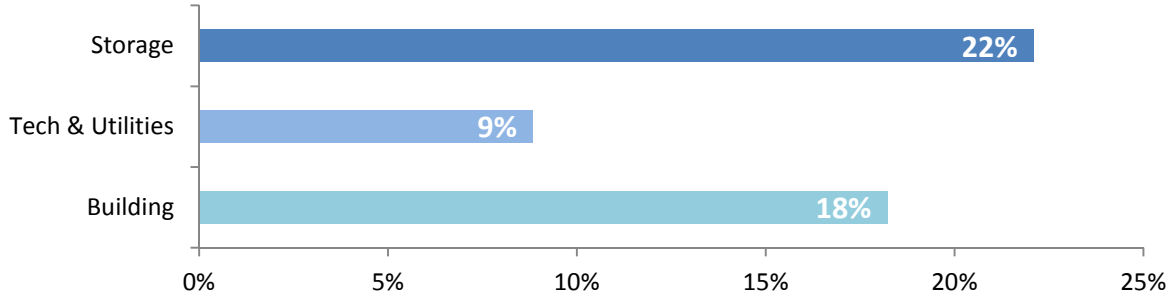
Multiple owners are much more likely to invest in their buildings than symbols and independents. This likely reflects their ability to invest more in non-essentials.

INDEPENDENTS

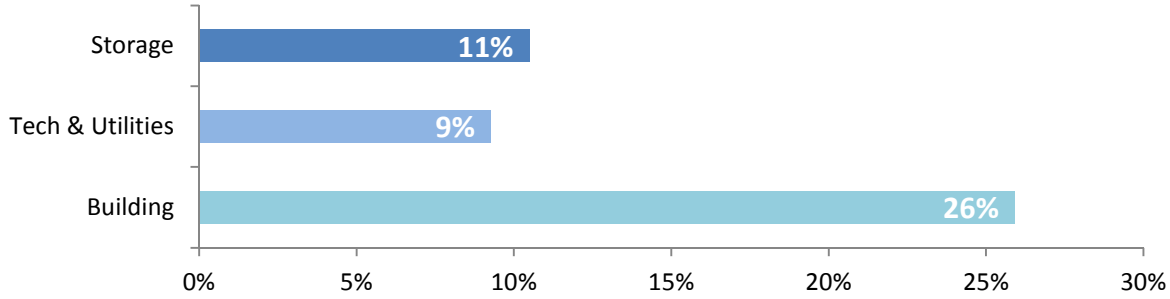
[17] This, and the second column is a weighted average, with the weighting multiplication factor taking into account the market share of each typology (multiples, symbols and independents), from WRBM/Nielsen's 2015 Grocery Retail Structure.



SYMBOLS



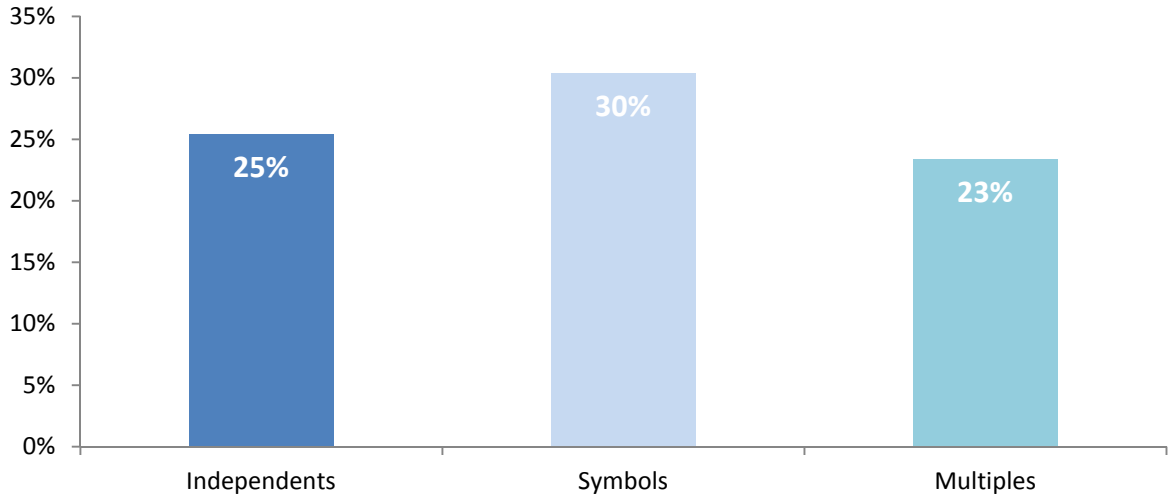
MULTIPLES



PROPORTION OF STORES THAT OWNERS INVEST IN (NEXT 12 MONTHS) (VOLS FOR INDEPENDENTS AND SYMBOLS, ACS INVESTMENT TRACKER FOR MULTIPLES)

Over the next year, 25% of independently-owned shops and 30% of those run as symbols are set to be invested in. Fewer multiples are due to receive investment, despite some multiples mentioning that they will be investing very large sums in some of their stores.

This is potentially due to independent and symbol store investment being smaller and more frequent, but multiples having larger, more periodic revamps.



AVERAGE PLANNED EXPANSION IN NEXT 12 MONTHS (VOLS)

- 1% of independent shop owners are planning to buy new stores in the next year
- 3% of symbol shop owners are planning to buy new stores in the next year

SOURCE OF INVESTMENT (VOLS)