ACS Submission: Budget July 2015

Introduction

ACS (the Association of Convenience Stores) welcomes the opportunity to provide evidence in advance of the July 2015 Budget. ACS represents 33,500 local shops across the UK, including the Co-operative Group, Spar UK, Costcutter, Nisa and thousands of independent retailers.

Policy Recommendations: Executive Summary

Employment

- Maintain an **independent Low Pay Commission** that sets the National Minimum Wage through an evidence based non-politicised process.

- Extend the £2000 **Employment Allowance** scheme that has removed thousands of retailers from paying employer NICs, enabling businesses to invest in their stores and create more jobs.

- Review the impact of passing the full liability of **Statutory Sick Pay** on to employers.

Business Rates

- We welcome the short term measures the Government have introduced on business rates such as the **Retail Rate Relief Scheme and the temporary 2% cap** on annual rates increases. This has provided retailers with significant discounts to their rates bills and more certainty on rating levels.

- HM Treasury published a Consultation on **Business Rates Review:** terms of reference and discussion paper on the 16th March 2015 to which ACS is responding. An overview of our key recommendations to the Business Rates Review is included in this submission.

- Promote further use of **discretionary rate relief** in the full review of business rates so local authorities can target rate relief at the businesses that are driving growth in their area.

Alcohol, Tobacco and Fuel Duty

- Introduce **no further alcohol or tobacco duty increases** in the July 2015 Budget

- Work with the alcohol industry and retailers to make **tackling duty fraud** an explicit part of the Government's Alcohol Strategy. Promote the **removal of alcohol**

licenses for premises that sell illicit alcohol to stamp out the black market and associated alcohol related harms.

- **Freeze fuel duty** rates at their current level.

Cost Barometer

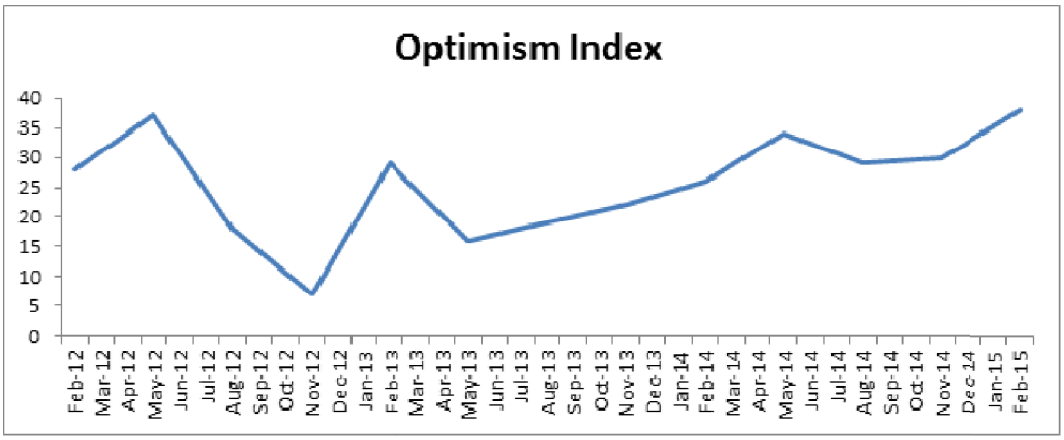
ACS has commissioned research by the Oxford Institute of Retail Management (OXIRM) to inform this submission and wider policy work with all Government departments. The intention of the Cost Barometer is to understand the impact and make up of costs on different local shop businesses, and the impact these costs have on their vitality and viability. The key findings show that the biggest costs for the whole convenience sector were employment and property. The initial findings of the Cost Barometer have been used throughout this submission in relevant policy sections.

Operating models vary within the convenience store sector. For example, an independent retailer employing only family members will be more resilient to NMW increases compared to a retailer with three shops, employing a large number of staff and looking to grow their business. ACS believes that policy makers should be mindful of the differing impacts policy can have on different business models in the convenience sector. A full overview of the project is available at Annex A for your reference.

Convenience Sector

The convenience sector provides employment for over 386,000 people across the UK[1]. It is a highly entrepreneurial sector, with 75% of independent retailers being first time investors[2]. Independent retailers work extensively long hours, with 23% of shop owners working more than 70 hours per week and 20% taking no holiday per year.[3] The value of the convenience sector is estimated at £37.4 billion, over a fifth of the total grocery market, and sales growth in the sector is predicted to continue at its current rate of 5.2%, outstripping the rest of the grocery sector. The convenience sector is predominately made up of independent and symbol group retailers (77%) and they account for 60% of total sales. We poll our members quarterly in our Voice of Local Shops survey (VOLS) to understand their sales performance, attitudes towards employment and confidence in the economy.

[1] ACS Local Shop Report 2014
[2] ACS Local Shop Report 2014
[3] ACS Local Shop Report 2014



The graph above is the Optimism Index that asks retailers to indicate whether they expect sales to increase or not over the next year[4]. There is a clear upward trend in the optimism index since May 2013 as the economy has recovered. A fifth of retailers (20%) are looking to invest in their stores over the next year and 15% expect staff hours to increase over the next year. However, nearly three-fifths (58%) of retailers had no plans to invest in their business and the majority of retailers expect staff hours to remain the same over the next year, with 13% indicating they are likely to decrease paid staff hours. Food prices fell by 0.5% in January 2015[5], the steepest rate for eight years. With the majority of sales in convenience stores made up of food and drink sales, this makes it more difficult for retailers to grow sales in their stores. These figures reflect the ongoing struggle retailers face in managing fixed business, product, and employment costs.

Business Rates

We welcome the Government's commitment to reducing the burden of business rates in the last Budget by introducing a range of short term measures. The introduction of a £1,500 rates reduction, reoccupation relief and the 2% cap on annual rates increases have been well received by our members. These short term measures have had a meaningful impact on their rates bills and allowed them to reinvest the savings elsewhere in their business.

ACS is submitting a response to the Treasury's Business Rate Review consultation and will be calling for further action to reform the rating system. The key recommendations we are making to the review are:

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] The index is calculated by subtracting the percentage of retailers who believe sales will decrease in the coming year from the percentage that believe sales will increase in the coming year.
[5] BRC-KPMG Retail Sales Monitor January 2015

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 rates 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.

We also strongly advocate greater use of **discretionary rate relief powers** by local authorities, targeting reliefs on businesses that are growing, or focusing reliefs in areas that require more investment. ACS jointly published a discretionary rate relief guide with the Department for Communities and Local Government in December 2014 to help local authorities think creative about using their discretionary rate relief powers. However, we acknowledge that local authorities have limited capacity to deliver discretionary rate relief without further support from central Government to underwrite their investments. We therefore urge the Government to investigate this further.

Employment

With staffing costs making up around 11% of the average convenience retailer's budget[6], it is important that these costs do not continue to significantly increase for retailers. Retailers are absorbing the costs of the introduction of automatic enrolment, holiday pay, Statutory Sick Pay and pressure to increase wage rates.

Continued increases in the National Minimum Wage (NMW) affects employment in the convenience sector significantly. The evidence that ACS gathers and submits to the Low Pay Commission (LPC) each year focuses on the business specific decisions that retailers must make when wage rates increase, with 94% stating that employment costs have had a negative impact on their business[7]. We have consistently shown that as wage rates increase, retailers reduce the hours they employ staff for (88%) and increase the hours they work themselves (72%).

Recent comments from all sides of the political spectrum about increases in the NMW are unhelpful and undermine the important role of the LPC to independently monitor, review and evaluate NMW rates. The success of the NMW policy has been the non-political nature of its delivery, with the LPC assessing and evaluating evidence from all sides. **The LPC also has a very clear remit to increase the NMW as high as possible without damaging employment levels.**

We welcome the government's **Employment Allowance scheme** and the abolition of employer National Insurance Contributions for employees under 21 years old and would

[6] ACS Cost Barometer 2015
[7] ACS National Minimum Wage Survey 2014

support the extension of this programme. For many small retailers, the employment allowance will completely remove them from paying employer National Insurance Contributions. However, this reduction does not necessarily off set the wider increases in their overall employment costs and we urge the Government to keep the wide range of employment costs faced by businesses under review.

The full liability of **Statutory Sick Pay** to employers has caused great concern amongst retailers, as the cost of paying sick pay and covering staff is extensive. ACS' NMW Survey surveyed 34 businesses representing almost 2000 retail outlets, reporting a total of 1772 sick days that they had to pay out for over the last 12 months. We urge the Government to review whether moving the full liability of sick pay for 90 days to employers is sustainable.

Alcohol and Tobacco Duty

ACS believes that continued increases in duty rates promote the expansion of the illicit trade by growing the differential between legal and illegal products. The extensive level of alcohol and tobacco duty fraud in the UK is costly to the Treasury in lost tax take and to retailers in lost revenue. For alcohol, the mid-point revenue loss to the Exchequer is £1.3 billion and the losses on tobacco smuggling are £2 billion[8].There is a strong correlation between increasing duty rates on alcohol and tobacco products and increases in the level of non-duty paid goods, we urge the Government to think carefully about the **benefit it provides to the illicit market** by increasing duty rates.

Alcohol

ACS is working closely with HMRC's Joint Anti-Fraud Alcohol Taskforce to support closer working between local authorities and HMRC to tackle non-duty paid goods and **remove alcohol licenses from retailers that sell illicit alcohol**. We would like to see further cross government involvement, particularly from the Home Office, making duty fraud a top priority in their Alcohol Strategy.

We welcome the implementation of alcohol wholesaler registration in the last Autumn Statement. The introduction of a register is a way to restrict alcohol duty fraud at the wholesale level, and ACS will continue to work with HMRC to support the effective delivery of this programme. We want this measure to restrict fraud without introducing significant additional burdens on retailers that may incidentally wholesale goods to other businesses.

Tobacco

Across government agencies and national organisations, collaboration is necessary to tackle the growth of the illicit tobacco market. The Home Affairs Select Committee report found the HMRC's approach was not effectively integrated to deter illicit tobacco in the UK[9]. ACS believes that there should be a joint effort between agencies to focus on the most common sources of illicit trade, friends and 'tab houses' – sales from private houses. Local shops are

[8] HMRC Measuring Tax Gaps 2014 edition - Midpoint of revenue loss for wine, beer and spirits and Midpoint of revenue loss for cigarettes and hand-rolling tobacco
[9] Home Affairs Committee: Tobacco smuggling: First Report of Session 2014-15

not primary source of illicit tobacco in the UK[10]. A combined effort that focuses on private sales is therefore necessary to combat illicit trade.

We urge the Government to carefully consider the potential onerous impact of the introduction of a minimum excise tax (MET) upon responsible retailers. The introduction of a MET and the continued increase in tobacco duty will encourage tobacco consumers to seek out cheaper, illegal sources of tobacco, as the cost of legal cigarettes increases.

Fuel Duty

We welcome the Chancellor's announcement in the March 2015 Budget to cancel the RPI inflation fuel duty increase scheduled for 1 September 2015. **We believe that this freeze should continue to be extended**. Convenience stores operating on petrol forecourts are an important part of the market, making up around 17% of the convenience sector[11]

Better Regulation

We welcome the introduction of the Enterprise Bill and the Government's intention to reduce regulation on small business. 77% of shops in the convenience sector are owned and operated by small business owners or 'independents'. It is a highly entrepreneurial sector, one in five has established their business within the last five years, and more than 57% work over 50 hours per week[12]. These statistics demonstrate the importance of cutting red tape for the owners and operators of these businesses and to ensure the continued growth of this sector. Entrepreneurs are significantly hampered by complex administrative burdens such as automatic enrolment and shared maternity and paternity, and often struggle with implementation due to their businesses' lack of administrative capacity.

The Government should take greater consideration of the cost of implementation for small shops when developing new regulations. This can be achieved in two ways, firstly: by having greater collaboration and coordination across different departments and levels of government. Secondly ensuring that consultation with the business community is at the forefront of policy development not an afterthought. To fully understand businesses Government should pursue greater and more frequent engagement with them at a pre-consultation stage, by offering more roundtable discussions across departments on proposals or ideas for new regulations, and in order gain intelligence on the salient issues affecting the sector.

We are also encouraged to see that the Government are looking to make further reforms to the primary authority programme. The programme has be an important step forward for our members in allowing them access to legally assured advice and ensuring a consistent approach from the enforcement community. We look forward to work with the BRDO during the Enterprise Bill on increasing the range of regulations included within the Primary Authority programme and make the processes for signing retailers up the scheme more straightforward.

For further information on this submission please contact Morgan Brobyn at Morgan.Brobyn@acs.org.uk or 01252 515001.

[10] Home Affairs Committee: Tobacco smuggling: First Report of Session 2014-15
[11] ACS Local Shop Report 2014
[12] ACS Local Shop Report 2014

Annex A – Cost Barometer

ACS' Cost Barometer explains how the costs that affect a local shop business are made up and how they impact on different local shops' business viability and vitality. The main cost concerns for retailers are product costs, employment costs and property costs. The Cost Barometer outlines seven broad store typologies and the pressures that each type of store faces. The smallest stores captured in the Cost Barometer are those which typically sell a small range of products (confectionary, news and tobacco) in urban locations, while some of the largest stores are run by entrepreneurs and large companies in suburban areas, providing a wide range of products and services.

Product for resale accounts for the majority of costs in all types of store, however this varies considerably depending levels of product wastage and the retailers' available supply chain.Some of the factors that have significant variance include employment and property costs, which also discussed below. Property costs include rents, business rates and energy consumption.

Overall, the smallest stores employing little to no staff are most at risk of duty increases due to their product range, while larger stores with wide product ranges are affected most heavily by changes to employment and property costs.

Products account for 77% of total costs

The cost of purchasing products to stock is the largest outgoing for retailers, accounting for 77% of total costs. The importance of price competitiveness to retailers is reflected in the growth of symbol group membership, such as Spar, Costcutter, Nisa, providing retailers with access to larger supply chains and cheaper products.

Stores with larger product ranges can realise higher gross margins on their wider product offer, especially in fresh and chilled goods and in food service ventures such as coffee and hot food to go. However, a wider range and service offering requires more staff to manage the stock and serve customers, more potential wastage, and investment in refrigeration and food preparation equipment that increases energy costs.

Stores with a larger product range also tend to be in prime locations in order to maximise footfall and reduce wastage, which also increases their property costs.

For the smallest stores (urban treat shops and CTNs), the proportion of costs taken up by product for resale is much higher than that of a larger store as the rental and staff costs are typically much lower than average and their economies of scale are much more restricted. These stores' dependency on a small range of products makes them especially susceptible to changes in tobacco duty, tax structures, regulations and displacement of trade to the illicit market.

- **Investment in refrigeration and higher staff levels is barrier to expansion in product ranges.**
- **Increases in duty rates and product taxes have a significant negative impact on small stores that have limited product ranges.**
- **Price competitiveness has driven retailers has driven retailers towards access to larger large supply chains offered by symbol groups.**

59% of stores are owned by entrepreneurs employing staff

The difference in ownership model of a store, either family, entrepreneurs or chain, has a significant bearing on their resilience to increases in employment costs. For family run stores (24%) they are highly resilient to employment costs as they are not subject to the national minimum wage regulations and usually live out of the business, significantly reducing their costs.

For entrepreneurs running a small number of stores or chains with a head office function, employment is a much larger consideration. Increases in the NMW directly affect store profitability with 88% of retailers indicating they are forced to cut back on staff hours when wages are increased. Entrepreneurs are also significantly hampered by complex administrative burdens such as automatic enrolment and shared maternity and paternity because they lack a central administrative function.

For all store types, increases in employment costs are a natural barrier to expansion and growth. However, this is much more prevalent for suburban larger stores with a wide product range and service offering as they most likely to have a high number of PAYE staff (as opposed to family members).

Investment in new services and increasing the footprint of the store is often delayed due to the required investment in extra staff hours, coupled with the increased risk factor of overall increases in employment costs. Where investment is made in stores that are on a tight margin, it is often the case that the store owners themselves will take on extra hours until the investment proves profitable and the store can sustain the additional staff commitment.

- **Smaller stores are far more resilient to employment increases as they are exempt from some regulations and live out the business.**
- **Employment costs are a significant barrier to store expansion and delay business investment.**
- **Entrepreneurs with no centralised administration function are significantly burdened by complex employment regulation like auto enrolment pensions**

Rates represent around 41% of rental costs

The annual increase in business rates over the last five years has indiscriminately increased property costs across all store types but some stores have been affected more heavily than others based on their location (for example forecourt stores in prime locations).

Business rates vary depending upon location from almost 3% to less than 1% of all costs, and are on average 1.03% of total costs. Rent and rates are related, though perhaps not as strongly as might be expected. On average, rates represent around 41% of rental costs, though this varies from 24% to 62%.

In a family business (most likely to be the smallest stores) the real estate is likely to be owned freehold as it may also be the family home. By contrast, there is a wide variation of ownership structures employed by established entrepreneurs and retail groups. While some may own the freehold to their estates, many prefer to rent in prime locations and some have sophisticated lease back arrangements. These accounted costs reflect very local economics and so can vary greatly from 1% to 5% of all costs.

For the smaller family run businesses, increases in business rates are a significant concern as they are unable to make cutbacks and have to absorb the cost increases. There is also a significant disadvantage for smaller format stores in the north resulting from the deal in the business rates revaluation.

- **Store ownerships varies greatly with majority of small operators owning the premises whilst are lease stores.**
- **Location is a big determinig factor on property prices with large format stores in prime locations incurring bigger costs.**
- **Business rates can be a block to investment for all store expansions and improvements. For example, airconditioning, CCTV and ATMs have separate rating schemes.**