ACS Submission: Budget 2017

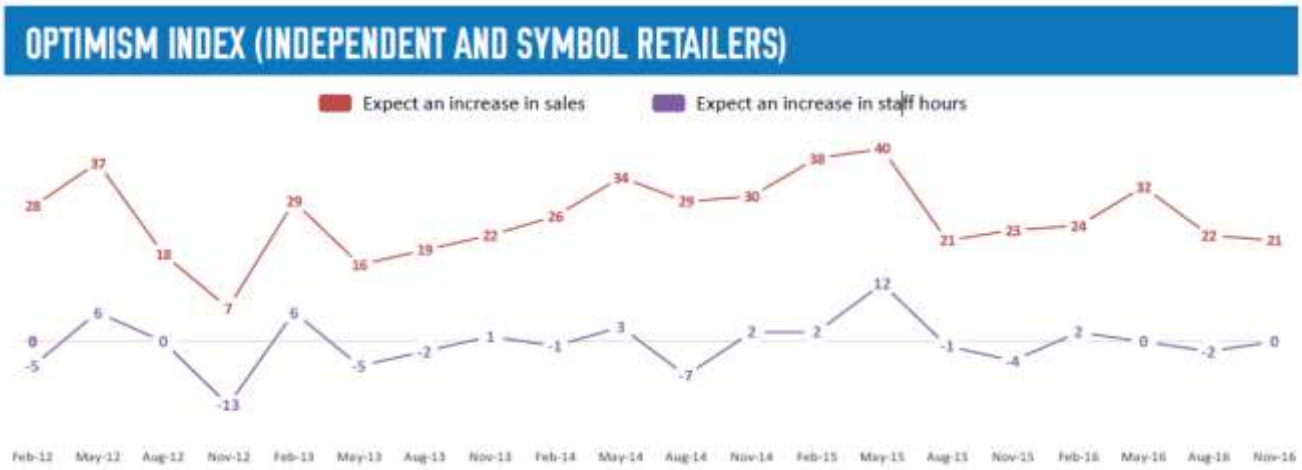
ACS (the Association of Convenience Stores) welcomes the opportunity to provide evidence in advance of the Budget 2017. ACS represents 33,500 local shops across the UK including the Co-op, Spar UK, One Stop, McColls Retail and thousands of independent retailers. For further details about ACS, please see annex A.

The convenience sector is worth £37.5 billion and adds £5 billion to the economy in gross value added. We employ 390,000 people in the convenience sector, 60% of whom are women. In the last year retailers' have invested over £838 million to keep up with consumers continuing demand to shop little, often and locally.

We welcomed the Department for Business, Energy and Industrial Strategy's publication of their Industrial Strategy Green Paper and we are committed to working with the Department to develop a 'sector deal' for the retail sector, addressing issues such as developing skills and supporting businesses to start and grow.

There are a number of potential contributing factors for such high investment at this time, including the fear of future interest rate rises, the continued fluctuations in the value of the pound, and the cost of doing business being set to rise for many in the new year as the business rates revaluation beds in and higher rates of the National Living Wage and National Minimum Wage are introduced in April.

The graph below shows that retailers remain on balance positive about sales prospects in 2017, but that optimism levels remain well below the levels seen before the July 2015 budget that introduced the national living wage. Since that announcement, retailers have remained steadfastly pessimistic about their ability to increase staff hours in the business.



ACS' November 2016 convenience dashboard here details retailers latest views on the optimism, business performance, investment levels and year on year sales increases. This submission to HM Treasury sets out a range of policy recommendations for the Chancellor to consider in advance of the Budget 2017.

Executive Summary

Business Rates

- Extend the £12,500 RV threshold for Rural Rate Relief to allow more petrol forecourt sites to qualify for support.
- Exempt businesses below £50,000 RV from liability for an Infrastructure Levy currently proposed in the Local Government Finance Bill.
- Bring forward the change in the annual indexation of the business rates increase from RPI to CPI to 2018 instead of 2020 to deliver an annual rates reduce of £370million.
- Review the use of the 'receipts and expenditure' turnover-based model for calculating business rates for forecourts and ATMs, and review the appropriateness of high street rates liability compared to internet distribution warehouses.
- Allow ratepayers to offset investment against their rates bills instead of penalising businesses that invest in property improvements.
- Ensure that reforms to the business rates appeals system do not act as a barrier to ratepayers challenging the VOA's rating assessment of their premises.

National Living Wage

- Mitigate increased employment costs by reintroducing central funding for statutory sick pay, consult with business on the extension of the employment allowance to mitigate increasing costs, and incentivise investments in the business rates system.
- Reinstate the independence of the Low Pay Commission to set wage rates based on economic analysis and consultation, without reference to arbitrary political targets.

Post Office

- HM Treasury should monitor responses and outcomes of the Department for Business, Energy and Industrial Strategy consultation on the future of the Post Office network being conscious of the pressure on the network and its viability in all locations.

Making Tax Digital

- Delay the introduction of HMRC's Making Tax Digital reforms to 2019-20 to allow businesses to prepare its account procedures and comply at a reasonable cost.

Alcohol

- Refocus enforcement action against retailers selling illicit goods by removing alcohol licences instead of issuing verbal or written warnings or pursuing criminal prosecution
- Freeze or reduce duty levels on alcohol and tobacco. Increased duty rates drives consumers to the illicit trade and leads to increased revenue gaps for the Exchequer.

Tobacco

- Increase funding to tackle the illicit tobacco market in light of the introduction of a Minimum Excise Tax on cigarettes, which will increase the price of low cost tobacco, driving consumers away from retailers to illicit tobacco sources.

Fuel Duty and Ultra Low Emission Vehicle Infrastructure

- Freeze Fuel Duty
- Do not mandate the introduction of ULEV infrastructure at Motorway Service Areas and 'large' fuel retailers and work with the fuel retailing industry to promote the

development of a commercially viable network of electric charging and hydrogen fuel outlets.

For more information on this Budget submission please contact Edward Woodall, ACS Head of Policy and Public Affairs by emailing Edward.woodall@acs.org.uk or call 01252 515001.

ACS Policy Recommendations in Detail

Business Rates

ACS has been fully engaged in the Government's review of the business rates system led by HM Treasury. We have welcomed the introduction of £6.7 billion package of support for business, especially the extension of small business rate relief so that all businesses below £12,000 rateable value receive 100% business rate relief. We continue to call on the Government to keep the rating system under review as many retailers continue to see increases in their rating bills, which acts as a barrier to investment and growth.

Since the publication of the draft rating list for the 2017 revaluation, ACS has survey retailers to understand the impact of the revaluation on their businesses. 30% said that their business rates bills had increased because of the revaluation, these businesses are the ones that are most likely to have invested in expanding or improving their store offer[1]. We believe the government has more to do to incentivise business that invest, not penalise them.

We support the introduction of the Local Government Finance Bill and the 100% business rates retention for local government. We are recommending that further save guards are introduced in the Bill to stop small business having to pay infrastructure levies. 42% of local shops operate in isolated locations with no other businesses around them, and half of their customer come from within a quarter of a mile of the store – therefore large infrastructure projects are unlikely to support convenience stores[2].

- **Ensure that reforms to the business rates appeals system do not act as a barrier to ratepayers challenging the VOA's rating assessment of their premises.**

DCLG has suggested that the Valuations Tribunal England (VTE) be prohibited from ordering an alteration to the rating list where the VTE considers the VOA's original assessment to be inaccurate, but within the bounds of as-yet unquantified 'reasonable professional judgement'. This means ratepayers could end up paying higher rates bills despite the VTE agreeing that their rates bill is inaccurate.

32% of convenience retailers challenged their rates bills after the 2010 revaluation. Of those to have received an outcome, 71% saw a change to their rating bill[3]. It is untenable for the Valuation Office Agency to deny any rate payer the right to challenge an incorrect rating assessment. This is an unjust attempt to deter appeals and contradictory to a modern, competitive business rates system.

- **Exempt businesses below £50,000 RV from liability for an Infrastructure Levy.**

[1] ACS Voice of Local Shops Survey November 2016
[2] ACS Local Shop Report 2016
[3] ACS Convenience Dashboard: February 2015

The Local Government Finance Bill should set a national rateable value limit on businesses eligible to pay an agreed Infrastructure Levy. An Infrastructure Levy should not apply to properties with RVs below £50,000. The Business Rates Supplements Act 2009 already uses a £50,000 RV limit for local authority levies aimed at promoting economic development and the small business rates multiplier is applied up to £51,000RV. The extension of the limit to infrastructure levies would ensure that small businesses are not disproportionately burdened by additional infrastructure payments, which local convenience stores will gain minimal benefit from.

- **Bring forward the change in the annual indexation of the business rates increase from RPI to CPI to 2018 instead of 2020 to deliver reduced business rates to businesses sooner.**

We support the change of the annual indexation of business rates from RPI to CPI. However, we believe this change should occur to align with rates bills for 2018-19, which would allow further cost savings for ratepayers, estimated at £370m per annum[4].

- **Allow ratepayers to offset investment against their rates bills instead of penalising businesses that invest in property improvements.**

We support a business rates system that is fair, consistent and incentivises business investment. Therefore, ratepayers should not receive higher bills for investments such as security cameras, air conditioning units and pallet racking. The Government should review the definition of plant and machinery and exempt business rates payments from these investments. This would encourage greater investment and resulting business growth.

- **Review the use of the 'receipts and expenditure' turnover-based model for calculating business rates for forecourts and ATMs, and review the appropriateness of high street rates liability compared to internet distribution warehouses.**

The business rate system fails to recognise the shift in market shares and sales value between bricks and mortar retailing and online retailing. The business rates liability for physical shops on high streets and local parades is significantly higher than those paid by large internet distribution warehouses. The government should review the rating schemes for internet distribution and attempt to rebalance costs compared with high street retailers.

Rating methodologies that are not based on rental data also require review. Petrol forecourt sites and ATMs are rated based on turnover, which results in disproportionate rating bills. We encourage Government to review the rating methodology for convenience stores on petrol forecourt sites, which are based on turnover, resulting in significantly higher increases.

Through the wall free to use ATMs should also be removed as rateable hereditaments in recognition of their role as high street enablers by strengthening local cash access. ATM provision is important to encourage consumer spending on the high street and support cash access for the financially excluded and the 1.6 million people who are reliant on cash[5]. Recent reported discussions within the LINK network suggest that banks may be seeking to reduce the interchange payments they make when their customers use an ATM operated by

[4] Budget 2016
[5] Payments Council.

a third party company, often at a convenience store. This would place further pressure on the economic viability of free to use ATMs.

A report by the think tank Localis found that 77% believe local economic growth would suffer if local access to cash was reduced[6]. Very few councils have used their local discount powers for ATM sites, so we believe Government must act to remove free to use ATMs from the rating list completely.

- **Extend the £12,500 RV threshold for petrol forecourts in rural locations to allow more to receive rating discounts**

We welcome the doubling of Rural Rate Relief to 100%, ensuring that rural retailers will no longer have to rely on local authorities to top up this relief through their discretionary powers. To qualify for Rural Rate Relief, businesses must either be the only village shop or Post Office with a rateable value up to £8,500, or be the only forecourt site with a rateable value of up to £12,500.

However, very few petrol forecourt sites are eligible for Rural Rate Relief because of the high rating bills caused by their turnover-based rating methodology. 60% of independent forecourt sites have ceased trading since 2001[7]. The threshold for forecourts should be extended to reflect the higher rateable values they attract and the important role they play in rural communities.

National Living Wage

There is a strong correlation between the introduction of the National Living Wage and a 4% reduction in number of people employed in the convenience sector[8]. There are a range of factors that will have contributed to reduced employment in the convenience sector but retailers have been clear that increasing wage costs has been the main catalyst for reducing staff numbers and staff hours.

ACS' National Living Wage survey 2016 found that retailers responded to wage increases by reducing staff hours (74%), reducing staff numbers (67%), and for independent retailers, increasing the number of hours they work in the business (65%)[9]. Retailers operating multiple stores that cannot increase their own working hours have delayed business investment plans and reduced staff working hours in their business at a faster rate. Looking forward, retailers are concerned about the Government's 60% median earnings target and whether this can be sustained in a difficult economic climate.

- **Mitigate increased employment costs by reintroducing central funding for statutory sick pay, consulting with business on the extension of the employment allowance to mitigate increasing costs, and reforming the business rates system to incentivise investment.**

We urge the Chancellor to consider introducing meaningful support to convenience retailers and other labour intensive business sector by reinstating central funding for statutory sick pay and reviewing business rates liabilities. Employer obligations to fund statutory sick pay

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[6] Localis. Is Cash king? Examining the importance of cash for local economies and communities. May 2016.
[7] Catalist
[8] Local Shop Report 2015 – 407,000 employees; Local Shop Report 2016 – 398,000 employees
[9] ACS National Living Wage Survey 2016

at the minimum rate of £88.45 per week means retailers must absorb substantial and unexpected rises in employment costs, and fund another wage to cover staff absence.

ACS welcomed the employment allowance to help off-set some of the costs of implementing the National Living Wage. The government could use this mechanism to give further support to businesses, and we would like to see a consultation to discuss the extension of the employment allowance to become a larger amount, to cover more areas of employment costs rather than just employers national insurance contributions, and to provide more support for multi-site businesses that operate to the same total allowance threshold as very small businesses.

- **Reinstate the independence of the Low Pay Commission to set wage rates based on economic analysis and consultation, without reference to arbitrary political targets.**

The Low Pay Commission (LPC) has proven itself as an objective body to monitor, review and recommend wage rates. The LPC should have its independence reinstated to recommend wage rates based on thorough economic deliberation and devoid of set political targets. This would allow wage rates to increase as much as possible without damaging employment prospects at the bottom end of the labour market.

Post Office

- **HM Treasury should monitor responses and outcomes of the Department for Business, Energy and Industrial Strategy consultation on the future of the Post Office network being conscious of the pressure on the network and its viability in all locations.**

HM Treasury should monitor the viability of the Post Office network and engage in the Department for Business, Energy, Industrial Strategy's consultation on the future of the Post Office network.

Making Tax Digital

- **Delay the introduction of HMRC's Making Tax Digital reforms to 2019-20, allowing businesses to prepare its account procedures and comply at a reasonable cost.**

The Government should take up the recommendation of the House of Commons Treasury Select Committee[10], which concluded that the Government's timetable for implementing Making Tax Digital is too short and that the clear majority of businesses will not be able to adapt to an April 2018 start date at a reasonable cost.

The rollout timeframes for HMRC's Making Tax Digital (MTD) reforms should be postponed until 2019-20 to give retailers more time to prepare for the changes. The current timeframes mean retailers will be required to update HMRC quarterly on income tax and National Insurance contributions from 2018, less than 18 months after the closure of the consultation process. Delivering the MTD reforms in short timeframes will unnecessarily pass cost and administrative burdens on to the smallest businesses.

[10] Treasury Select Committee Making Tax Digital inquiry Report, Recommendation 5

Alcohol and Tobacco Duties

- **Freeze or reduce duty levels on alcohol and tobacco. Increased duty rates drive consumers to the illicit trade and leads to increased revenue gaps for the Exchequer.**

Alcohol and tobacco are important product ranges for the retail sector. Alcohol represents on average 14% of UK sales in convenience stores, while tobacco represents, on average, 15.4% of sales. ACS believes that increases in duty rates on alcohol and tobacco products promote the illicit trade by growing the price differential between legal and illicit products. The Exchequer currently loses £1.6 billion to the illicit alcohol market[11] and £2.4 billion annually to the illicit tobacco market[12].

We urge Government to consider the implications of increased duty rates for the illicit market and its knock-on effects for revenue lost by the Exchequer, undermining public health and legitimate business objectives. We recommend that the Government freezes duty rates on alcohol and tobacco products and focusses its resources on enforcement activity to remove criminals from trading in illicit and non-duty paid goods.

- **Refocus enforcement action against retailers selling illicit goods by removing alcohol licences instead of issuing verbal or written warnings or pursuing criminal prosecution**

There is a robust set of sanctions already available to HMRC and enforcement agencies to tackle the illicit market, but under-resourcing at HMRC prevents fast and consistent enforcement. We encourage enforcement officers to remove retailer's ability to trade by removing their alcohol licence if they are found to be selling illicit or non-duty paid products. This is an effective but underused sanction which we know would undermine the illicit trade in the convenience sector.

Tobacco

- **Increase funding to tackle the illicit tobacco market in light of the introduction of a Minimum Excise Tax on cigarettes, which will increase the price of low cost tobacco, driving consumers away from retailers to illicit tobacco sources.**

ACS opposes the introduction of a Minimum Excise Tax (MET) on cigarettes. We anticipate that a MET will increase the price differential between the lower end of the legitimate cigarette market and the illicit cigarette market, leading to more consumers downtrading to the illicit market. The price of tobacco for consumers already increases on an annual basis via the duty escalator at 5% above inflation.

If a Minimum Excise Tax on cigarettes is introduced, the Government must use sanctions more effectively and dedicate more resources to tackling the illicit tobacco trade, otherwise Minimum Excise Tax will only harm legitimate retailers and fuel the growth of the illicit tobacco trade. ACS is committed to working with HMRC to tackle the illicit tobacco trade. In our submission to HMRC's consultation on the Tobacco Illicit Trade Protocol - licensing of equipment and the supply chain, ACS outlined a number of recommendations on how the Government can utilise current sanctions and powers not being used to further tackle the illicit tobacco trade. These included:

[11] HMRC Measuring Tax Gaps Report 2016
[12] HMRC: Measuring Tobacco Tax Gaps Report 2016

- More effective sanctions available to trading standards officers, including the revocation of alcohol licences for selling illicit tobacco,
- Additional powers to trading standards officers to sanction retailers by using the Customs & Excise Management Act 1979 (CEMA).
- Extending the scope of Restricted Premise Orders to include illicit tobacco as an offence

Fuel Duty and Ultra Low Emission Vehicle Infrastructure

- **Freeze Fuel Duty**

We welcomed the Chancellor's announcement in the 2016 Autumn Financial Statement to freeze the fuel duty rate for the seventh successive year. We believe that this freeze should continue to be extended.

- **Do not mandate the introduction of ULEV infrastructure at Motorway Service Stations and 'large' fuel retailers and work with the fuel retailing industry to promote the development of a commercially viable network of electric charging and hydrogen fuel outlets.**

The Department of Transport recently consulted on their proposed ultra-low emission vehicle (ULEV) measures to include in the Modern Transport Bill, which ACS responded to, here. The proposed measures would mandate operators of motorway service areas and 'large' (yet to be defined) fuel retailers to ensure a minimum provision of electric and hydrogen fuels for ULEVs. ACS does not support the Government's plans to introduce legislation for the mandatory provision of ULEV charge points.

We acknowledge that the Government has set an ambitious zero emissions target by 2050, to meet this target, the Government must secure industry co-operation. To secure industry support, the Government must make the business case for an extension of alternative fuel provision. The Government must be able to show how they will incentivise investment, that there is sufficient consumer demand for alternative fuel provision and that business investments will work to future proof businesses and support their current trading model.

For more information on this Budget submission please contact Edward Woodall, ACS Head of Policy and Public Affairs via: Edward.woodall@acs.org.uk or call 01252 515001.

ANNEX A

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 50,000 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 22,870 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 15,060 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 12,165 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls, Conviviality Retail 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

In 2016, the total value of sales in the convenience sector was £37.5bn. The average spend in a typical convenience store transaction is £6.13.

There are 50,095 convenience stores in mainland UK. 74% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.

The convenience sector provides flexible employment for around 390,000 people. 21% of independent/symbol stores employ family members only.

24% of shop owners work more than 70 hours per week, while 22% take no holiday throughout the year. 74% of business owners are first time investors in the sector.

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. 84% of independent/symbol retailers have engaged in some form of community activity over the last year.

Between August 2015 and May 2016, the convenience sector invested over £600m 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 1200 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 1200 independent and symbol retailers which is combined with responses from multiple businesses representing 3,970 stores.

ACS LOCAL SHOP REPORT

Annual survey of over 2200 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 5,765 stores. The Local Shop Report also draws on data from him! research and consulting, IGD, Nielsen and William Reed Business Media.

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