ACS Submission | Spring Budget 2023

There are **48,590** convenience stores in mainland UK

Convenience stores in mainland UK provide over **405,000 jobs**

Colleagues in the convenience sector **worked** a combined **9.6m hours** a week over the last year

Convenience stores have invested **£605m** in their businesses over the last year

ACS (the Association of Convenience Stores) welcomes the opportunity to provide evidence to the Treasury ahead of the Spring Budget. It comes at a time when our sector is under enormous pressure from rising energy costs, product price increases driven by food inflation, rising statutory wage rates and falling consumer confidence. We are cautious about warning of store closures, but we are clear that the current economic environment plus reduced support from government with energy bills will result in some business failures in sector, leaving communities without access to essential goods and services.

ACS' budget submission includes a wide range of policy recommendations, but we believe the priority for the Chancellor at the Budget should be to increase and better target support available for businesses under the Energy Bill Discount Scheme. We, along with other members of the business community[1], have also called on the Business Secretary and Ofgem to encourage energy suppliers to support the most vulnerable businesses to renegotiate their energy contracts to better reflect lower wholesale prices.

Convenience stores make an enormous contribution to people's lives, not just as essential grocery businesses, but as job creators, community hubs and beacons of entrepreneurship. The convenience sector trades within all types of communities, from town centres to neighbourhood shopping parades and as isolated rural village shops. Beyond groceries, these businesses also provide a range of other services, including bill payment (in 76% of stores), cash back (69%), local grocery delivery (24%) and post offices (22%)[2]. The location and services offered through the local shop reflects why convenience stores are consistently rated by consumers as the business type with the most positive impact on its local area[3].

The convenience sector also makes a significant and expanding contribution to the UK economy, with 48,590 stores investing £605m in their businesses over the last year, contributing over £9.7bn in GVA and over £9bn in taxes, and providing flexible and local employment for around 405,000 people[4].

Convenience retailers are having to make difficult decisions around the financial structure of their business operations. Retailers are tweaking profit margins to account for rising operating costs and increasing investments into energy efficiency and productivity improvements. Retailers want to do

[1] ACS, FSB, BBPA, BIRA letter to the Business Secretary
[2] ACS Local Shop Report 2022
[3] ACS Community Barometer 2022
[4] ACS Local Shop Report 2022

all they can to continue supporting their customers by remaining competitive on everyday staples, but there is no doubt that some of the increased costs facing retailers will be passed on to consumers.

The UK's economic recovery needs to be driven by business having confidence to invest in their people and infrastructure to increase productivity. The convenience sector is vibrant, resilient and adaptable, but we need support to weather this unprecedented trading period and deliver services in communities. ACS' recommendations for the Chancellor of the Exchequer are as follows:

RECONSIDER THE PLANNED BUSINESS ENERGY SUPPORT PACKAGE AND TARGET BUSINESSES MOST IN NEED

⇒ Increase the level of discount available under the Energy Bill Discount Scheme so businesses receive meaningful support to manage their energy costs
⇒ Better target discounts at the most vulnerable businesses that renegotiated their contracts when the wholesale energy prices were at their highest in 2022
⇒ Put pressure on energy companies to allow the most vulnerable businesses to negotiate new contracts to better reflect lower wholesale prices

SUPPORT RETAILERS THROUGH A DIFFICULT TRADING PERIOD

⇒ Incentivising retailers to invest in their businesses
⇒ Bring forward the Improvement Relief from April 2024 and Expand Green Reliefs
⇒ Look to introduce an Alternative Rating Model to redress the imbalance between online and brick and mortar retail

PROMOTE LOCAL, SECURE AND FLEXIBLE EMPLOYMENT

⇒ Set future wage rates on objective economic analysis not government set targets
⇒ Bring forward the review of Employer National Insurance Contribution (NIC) thresholds
⇒ Recognise good quality employment and target regulation at employers using insecure and one-sided labour models

TACKLE ILLICIT TRADE

⇒ Invest funding in disrupting the illicit tobacco and e-cigarette market, which diverts trade from local shops and results in billions of lost tax receipts
⇒ Freeze alcohol and tobacco duties to avoid driving consumers away from responsible retailers and towards the black market

PROTECT THE FUTURE OF ROAD TRANSPORT

⇒ Freeze fuel duty to support retailers and customers during the cost-of-living crisis
⇒ Incentivise investment in Electric Vehicle Charging Infrastructure

DELIVER A JUST TRANSITION TO THE NET ZERO ECONOMY

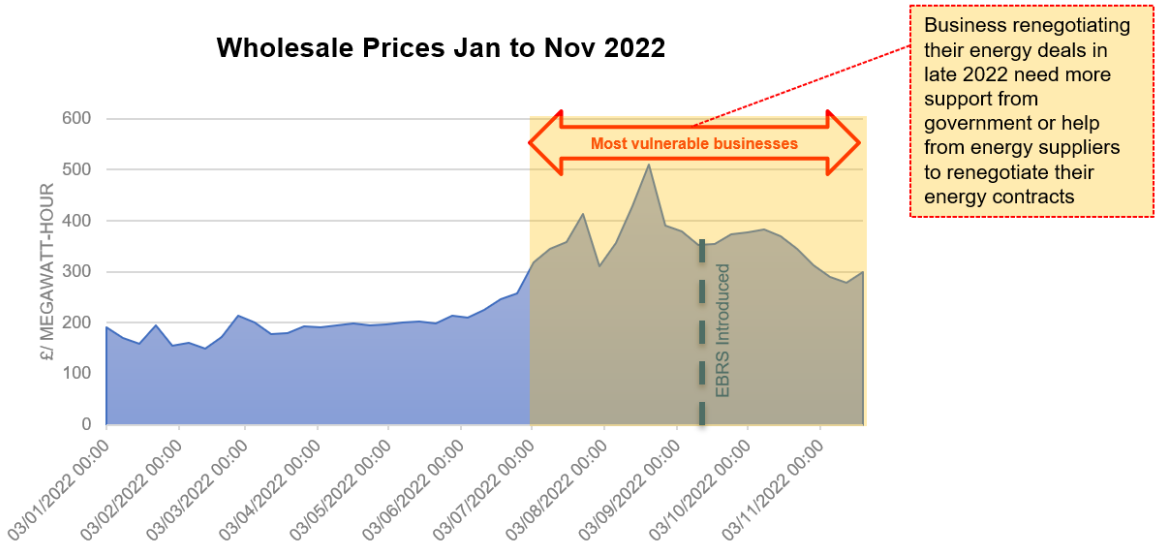
⇒ Introduce an effective and efficient Deposit Return Scheme in England and Wales
⇒ Support retailers to make greener energy investments

RECONSIDER THE PLANNED BUSINESS ENERGY SUPPORT PACKAGE AND TARGET BUSINESSES MOST IN NEED

The current Energy Bill Relief Scheme (EBRS) has been a lifeline for the convenience sector in ensuring they can continue to provide their communities with essential goods and services. The scheme provides certainty for retailers over their energy bills and has made a material difference in their ability to plan ahead. The new Energy Bill Discount Scheme (EBDS), due to come into place from 1 April 2023 substantially reduced support available to local shops and must be reviewed.

The reduced level of subsidy under the EBDS is ultimately pointless if it is not targeted at the most vulnerable businesses. The Government undertook a wide-ranging and robust consultation process, collecting evidence and ideas from industry about how to target energy bill support, but the new scheme represents an abject failure in Government policy to target support at the most vulnerable businesses.

The Government should focus the limited support available on the businesses that are most vulnerable. This means businesses that renegotiated their energy contracts between July and December 2022 (see the diagram below) when wholesale energy prices were at their highest for suppliers.



This period represents the peak of wholesale energy costs, any business negotiating their contract at this time will be subjected to the highest bills. From April 2023, when the EBRS ends, these contracts will revert to higher rates. Under the EBDS, they will only receive a 2p per KwH discount if their wholesale energy prices exceed 30.2p per KwH. To address these concerns, the Government should:

Increase the level of discount available under the Energy Bill Discount Scheme so businesses receive meaningful support to manage their energy costs

The Government's £5.5 billion Energy Bill Discount Scheme does not provide enough support for local shops and other businesses. We estimate that local shops under the EBRS benefited from £600million of support over six months. Under the EBDS, support will be reduced to £60million - one tenth of the previous levels - over a 12-month period.

£60 million over 12 months is not even a sticking plaster for the vast increases that will be experienced by local shops. We have seen many local shops, that are resilient and adaptable businesses, indicate that the lack of support from Government will put their business at risk of failure leaving the communities they serve without access to goods and services.

We believe that the Chancellor will have to look again at the EBDS unless the Treasury wants to oversee business closures and higher prices for consumers. We want the Government to look again at the level of support offered to businesses with a focus on targeting additional support at the businesses that need it most.

Better target discounts at the most vulnerable businesses that renegotiated their contracts when the wholesale energy prices were at their highest in 2022

The Terms of Reference for the review into the EBRS had a clearly stated objective of "*Ensuring support is targeted at those most in need and unable to adjust or absorb to recent energy price rises"*[5] However, the EBDS has not considered the impact of rising energy costs on businesses or found ways of targeting support.

We accept that the Government cannot support all businesses from increased energy costs. Yet, we do expect the Government to try and offer support to businesses that negotiated contracts when wholesale prices were are their peak. We believe the Government should use the following criteria for offering additional support. Where energy suppliers can identify businesses that:

- negotiated their contracts during the peak of wholesale prices, between July and December 2022, AND
- demonstrate the level of wholesale price they have negotiated is above the EBRS wholesale price cap

The Government would only need to offer additional support to business that can evidence the points outlined above and only offer support for the **remaining period of their contract after the EBRS ends in March**. Support could be offered on a sliding scale based on the wholesale price negotiated so that businesses with higher wholesale price receive more support.

Put pressure on energy companies to allow the most vulnerable businesses to negotiate new contracts to better reflect lower wholesale prices.

[5] Terms of Reference: Review of Energy Bill Relief Scheme

The Chancellor has asked Ofgem for recommendations for reforming the non-domestic energy market in advance of the March Budget. We recommend that the Government and Ofgem create a new framework for energy suppliers that means they offer support for businesses that renegotiated their contracts between July and December 2022.

The Government was actively encouraging energy suppliers to give businesses the opportunity to switch to a fixed contract/ tariff for the duration of the EBRS. This was stipulated in the Government press release announcing the scheme[6]. The Government should continue to encourage energy suppliers to support businesses to renegotiate their contracts based on the highest wholesale prices that last beyond March 2023.

The option to renegotiate contracts should be automatically available to businesses where energy suppliers can confirm:

- they negotiated the new energy contract within the peak wholesale price period of 2022
- the level of wholesale price on the contract is above the EBRS wholesale price cap
- the end date of the contract to demonstrate the length of exposure to higher prices beyond the existing EBRS (from April 2023 onwards)

[6] Government Outlines Plans To Help Cut Energy Bills For Businesses

SUPPORT RETAILERS THROUGH A DIFFICULT TRADING PERIOD

Incentivise retailers to invest in their business

The Government must enable retailers to invest, particularly in ways that help them be more energy efficient. Retailers want to reduce operating costs in the long run, but most shops will now be unable to invest in these initiatives as the cost of doing business increases.

Convenience stores have invested £605m in their businesses between August 2021 and May 2022[7], and around one in five retailers are looking to invest in their stores over the next 12 months[8]. Many convenience stores already invest in energy saving initiatives, including LED lighting (49% of stores), chiller doors for refrigerators (48%), smart meters (33%) and solar panels (5%)[9]. To support the Government's own net zero targets, new tax and investment incentives should be in place, encouraging more businesses to invest in energy saving measures and rewarding businesses that do more to offset their carbon footprint.

For many convenience retailers, investments needed to increase energy efficiency will be too small to write down as capital expenditure. Instead, support is needed via small grants and loans to accelerate business investment. This should be supported by clear guidance from government on where the best energy saving investments can be made across different sectors.

Bring forward the Improvement Relief from April 2024 and Expand Green Reliefs

ACS welcomed the business rates support package in the Autumn Statement, including freezing the multiplier at its current level for the next financial year, the extension and increase in retail, hospitality and leisure relief, the Supporting Small Business Scheme and the scrapping of downward transition rates. However, the delay to Improvement Relief to April 2024 needs to be reviewed in order to incentivise investment.

The Improvement Relief is unique in that it encourages businesses to make investment in their premises without the risk of seeing automatic rates liabilities increasing. At a time when business investment confidence is low the Treasury should be pulling all levers to reduce the risk of businesses investing. This will help retailers invest in new plant and machinery, such as CCTV systems, or expanding stores to deliver more services to their communities.

We welcome that the government introduced green reliefs for solar panels and heat pumps and reduced VAT reductions for energy saving materials. We would support that expansion of green rate relief and tax on other green investments, for example more energy efficient lighting, refrigeration and air conditioning systems used in retail settings.

[7] ACS Local Shop Report 2022
[8] ACS Voice of Local Shops November 2022
[9] ACS Local Shop Report 2022

Look to introduce an Alternative Rating Model to redress the imbalance between online and brick and mortar retail

After scrapping plans for an Online Sales Tax (OST) the Government must take steps to address the disparity between tax paid by online and bricks & mortar businesses. There is currently an imbalance in taxes paid between retailers supporting local high streets and online-based business models.

ACS therefore proposes a bespoke rating methodology for dedicated online distribution warehouses, within the existing business rates system. The use of different rating methodologies to establish market rental value is already common in other important sectors where the economic value of the business is not reflected in property values as traditionally determined in the rating system, such as pubs, restaurants and petrol forecourts.

These sectors rateable values are determined on the receipts and expenditure model accounting for sales through different parts of the business. For example, petrol forecourts must submit information to the Valuation Office Agency on their car wash, fuel and shops sales. A similar approach should be considered for businesses operating distribution warehouse mainly services online sales.

A two-pronged approach is needed: introducing an alternative rating methodology for online distribution warehouses, then using revenues to reduce bills for retailers and support the viability of high streets and local services.

PROMOTE LOCAL, SECURE AND FLEXIBLE EMPLOYMENT

Set future wage rates on objective economic analysis not government set targets

Retailers have indicated that the increase in the NLW over the past year has impacted their profitability (67% of retailers) as they try to absorb costs. However, increases in the NLW plus excessive increases in operating costs has also meant it has been unavoidable for retailers not to increase their prices (50%)[10]. Half of retailers are also seeking to reduce the number of working hours of staff in their business.

Wage increases has also had a dramatic impact on supervisory and managerial roles in stores. This is because retailers are struggling to maintain pay differentials between supervisors and customer assistants, many independent retailers have already removed supervisory and assistant manager roles. We have seen an increase in investment in automating processes like, self-scan tills or back-office functions. However, the investment costs in automation is prohibitive for many retailers as the return on investment cycle is very long. Investment in self scan checkouts (11%) and digital shelf edge labels (8%) therefore remains low.[11]

The Government will shortly reach their target of ensuring that the NLW represents two thirds of median earnings and needs to consider how wage rates will be set in future. We believe that the Low Pay Commission should be empowered to set minimum wage rates independently of political targets. An objective analysis of the economic evidence and the views of all stakeholders should seek to ensure statutory wage rates can increase without impacting employment opportunities in the retail sector.

Wage rates should also be positioned within a broader Government package to tackle low pay by encouraging in-work progression. This package should promote a culture of lifelong learning by reforming skills and apprenticeships, encouraging flexible working and motivating workers to progress. Industries long standing calls to the Apprentice Levy funding to be used more flexibly need to be delivered on by the government.

Bring forward the review of National Insurance Contribution (NIC) thresholds

To lessen the blow on the cost of employment, the Government should review Employer National Insurance rates well before 2027. Whilst cancelling the increase to employers' NIC at the Autumn Statement was the right decision, freezing NICs thresholds until 2028 will be a drag on job creation, especially as pay levels are forecast to increase over this period. The Government must therefore seek to increase employer NICs thresholds to create the right environment for businesses to create employment opportunities.

[10] ACS NLW Survey 2022
[11] ACS NLW Survey 2022

Recognise good quality employment and target regulation at employers using insecure and one-sided labour models

Convenience retailers provide good quality jobs which are local, secure and genuinely flexible. This good work is under threat from continual increases in statutory wage rates and the use of gig economy employment models by competitors. The Government should deliver on the commitments made in the 2019 Good Work Plan to address the issue of one-sided flexibility, with employers offering a higher wage for non-guaranteed hours or sending workers home when customer demand is low[12]. We welcome the development of new Employment legislation to address this.

Employment in the convenience sector provides genuine ‘two-sided flexibility’ within the labour market. Retailers provide flexible working hours which fit around colleagues’ commitments, 66% have commitments affecting the working hours they can undertake, and there is very limited use of zero-hour contracts. More than two-thirds (69%) of colleagues value the advance noticed they are given of their work schedules and 68% feel satisfied in their job[13].

[12] BEIS: Good Work Plan 2019

[13] ACS Colleague Survey 2022

TACKLE ILLICIT TRADE

Invest funding in disrupting the illicit tobacco and e-cigarette market, which diverts trade from local shops and results in billions of lost tax receipts

The latest data on UK tax gaps highlighted that the Treasury lost £2.6 billion from non-duty paid tobacco and alcohol.[14] In order to combat the strong presence of illicit trade in each market, the Government must commit to more investment in stronger enforcement against tobacco and alcohol duty fraud. ACS' recent Trading Standards Survey highlighted that 61% of Trading Standards officers believe they had insufficient funding to effectively tackle the illicit tobacco and vaping products market.[15] We therefore welcome the recommendation made in Javed Khan's independent review of smokefree 2030 policies for £15 million more funding for Trading Standards to tackle the illicit tobacco market.

We urge the Government against the introduction of licensing or registration schemes for retailers of tobacco and vaping products before committing to raising enforcement budgets. Registration and licensing schemes are only as good as the enforcement teams behind them. Trading Standards departments and HMRC enforcement teams cannot keep pace with existing requests for enforcement action where illegal activity relating to duty evasion or illegal sales are reported. The rise of illegal activity in the UK vaping market is placing further strain on Trading Standards teams resources. 90% of Trading Standards Officers state that illegal activity around the sale and distribution e-cigarettes has increased over the past 12 months.[16]

Freeze alcohol and tobacco duties to avoid driving consumers away from responsible retailers and towards the black market

We welcome the Government's recent announcement of a six month freeze to alcohol duty rates and the support this will provide to businesses selling alcohol as they adjust to the new alcohol duty regime.

Continual increases in alcohol and tobacco duty in the past have driven consumers to black market operators that brazenly trade in left behind communities with little fear of reprisals. Our latest data shows that local shops collect £7.5bn in excise duty on behalf of the Treasury from a range of products and services sold.[17]

Freezes to both alcohol and tobacco duties, in addition to greater enforcement action against black market operators, will ensure fewer illegal goods are entering communities and reduce the tax gap.

[14] Measuring tax gaps 2022 edition: tax gap estimates for 2020 to 2021
[15] ACS Trading Standards Survey 2022.
[16] ACS Trading Standards Survey 2022.
[17] ACS Local Shop Report 2022

PROTECT THE FUTURE OF ROAD TRANSPORT

Freeze fuel duty to protect retailers and customers during the cost-of-living crisis

We urge the Chancellor to freeze fuel duties at the Budget. Rising fuel prices impact retailers operating cost directly. Over the past 12 months retailers have seen increased or new delivery charges from wholesalers for the delivery of goods to stores. The convenience sector business model requires frequent deliveries to sites to maintain availability, meaning increased delivery charges can have a sizeable impact.

Increased delivery charges can often have disproportionate impact on rural retailers serving isolated communities, where supply chains are longer and sales volumes are lower. These new or increased delivery charges are largely the result of rising fuel costs and a tight labour market impacting operating costs in the logistics industry. Ultimately the costs are passed through to retailers and consumers further compounding the impact on inflation rates.

It is important that the government recognizes that the 5 pence fuel duty cut introduced at the Spring Budget 2022 was passed on to consumer by fuel retailers, this was confirmed in the Competition and Market Authority's (CMA) recent inquiry[18]. We welcome further scrutiny by Government and the CMA of road fuel pricing. We are engaging positively in the CMA's Market Study and welcome their initials findings showing there is no strong evidence that rising retailer spreads had driven the significant rise in pump prices.[19][20] The CMA has also found that the primary drivers of rising pump prices were increases to crude oil prices, and a growing gap between the price of crude oil and the wholesale prices of petrol and diesel.

Incentivise investment in Electric Vehicle Charging Infrastructure

Fuel retailers understand the need to transition the road vehicle fleet to net zero with many investing millions in new Elective Vehicle (EV) infrastructure[21]. We support the Government's 2022 ambition of 300,000 public chargepoints in the UK by 2030.[22] However, as of October 2022, there are currently under 34,000 electric vehicle chargepoints across the UK.[23] Retailers need to be incentivised to invest in charging infrastructure. We urge the government to accelerate the process for delivery of the Rapid Charging Fund.

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[18] CMA Road Fuel Review 2022: Has the fuel duty cut been passed on to consumers?
[19] CMA, Road Fuel Review, 2022
[20] CMA, Initial Update Report, 2022
[21] Taking Charge: Electric Vehicle Infrastructure Strategy
[22] DfT, Taking Charge: the electric vehicle infrastructure strategy, 2022
[23] ACS, Forecourt Report 2022

DELVIER A JUST TRANSITION TO THE NET ZERO ECONOMY

Introduce an effective and efficient Deposit Return Scheme in England, Wales and Northern Ireland

Following a consultation in 2019, the Government will introduce a deposit return scheme (DRS) in England, Wales and Northern Ireland to improve the recycling rates of single-use drink containers.[24] Scotland's DRS, due to go-live in August 2023, has revealed issues that it is important the UK Government does not repeat when implementing the scheme in the rest of the country.[25]

We urge the Chancellor to review the decision of the application of VAT to container deposits. The application of VAT to container deposits reduces funds available to deliver new infrastructure supporting the circular economy. If VAT were applied, a bottle of water purchased in a shop at £1, would attract a 20p deposit and a further 4p for the 20% VAT on top of this, but only 20p would be received for recycling the bottle after consumption. This effectively creates a perverse form of taxation on recycling.

We welcome the recent announcements made by the Department for Environment, Food and Rural Affairs confirming that the DRS system will be strategically mapped and exemptions will be available for some retailers. We believe the 2025 go live date for DRS is ambitious but we are committed to delivering the scheme.

Support retailers to make greener energy investments

ACS supports the Government's ambition to make the UK net zero by 2050. Retailers need to make significant investments to their stores to help achieve these goals. ACS' Local Shop Report 2022 demonstrates that retailers are already making investments to increase their businesses' energy efficiency and sustainability.[26] 49% of convenience stores use LED lighting, 48% use chillers doors, 33% use smart meters and 5% use solar panels.[27]

To ensure further green investment is possible in the sector, retailers need support to make adjustments to their businesses. Grants and funds should be made available for convenience store retailers to continue assisting in the UK's net zero ambition.

[24] DEFRA, DEFRA (NI) and Welsh Government, Introducing a Despot Return Scheme (DRS) in England, Wales, and Norther Ireland,' 2019
[25] Scottish Government, Managing Waste, Deposit Return Scheme, 2021.
[26] ACS, Local Shop Report 2022
[27] Ibid.