ACS | the voice of local shops

ACS Submission | Spring 2022 Fiscal Statement

There are **47,079** convenience stores in mainland UK

Convenience stores in mainland UK provide over **392,000 jobs**

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

Source: ACS/Lumina 2021

Over the last year, convenience stores have **invested** **£534m** in their businesses

The local shop has a unique reach into the lives of consumers and the communities in which we all live. The convenience sector trades within all types of communities, from town centres to neighbourhood shopping parades and as isolated rural village shops. These essential businesses are providing an expanding grocery offer and breadth of services, ranging from bill payments (in 76% of stores) and Post Offices (24%) to growing provisions of bakeries (31%), local grocery delivery (22%) and dry cleaning (7%)[1]. 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[2].

The convenience sector also makes a significant and expanding economic contribution to UK plc. There are over 47,000 convenience stores in Britain, investing £534m over the past year, providing 392,000 jobs and generating £9.8bn in GVA[3]. The Government has set out a priority to make the UK the best place in the world to start and grow a business. We believe the government should use the next fiscal statement to address the rising cost of doing business and demonstrate a partnership approach with retailers on decarbonisation.

Our latest research on the cost of doing business demonstrates that retailers are facing a tough trading year ahead[4]. Increased supply chain costs from border disruption and structural changes to the labour market are passing through to retailers. Product costs have gone up due to increased commodity prices as the global economy awakes from the pandemic. Energy bills have skyrocketed for retailers and over 7,000 convenience retailers face a £13,000 bill to refit their stores to comply with new regulations banning promotion and location of less healthy products.

Retailers are trying to mitigate these increases by fundamentally changing the financial structure of their businesses. Members are tweaking profit margins to account for rising operating costs and increasing investments into energy efficiency and productivity improvements. Retailers want to do all they can to support their customers, by remaining competitive on everyday staples like bread and milk. However, there is no denying that some of the increased costs experienced by retailers will have to be passed through to consumers via higher prices.

The economy and labour market are in a fragile state, still recovering from the pandemic and now marked by a volatile geopolitical situation. We urge the Chancellor to maintain support measures, such as business rates reliefs, for an extended period. We are also urging the Chancellor to review the impact of increases to employer national insurance contributions and planned restrictions on the location and promotion of products on business investment decisions. We believe that the path to recovery and sound public finances will be delivered by a tax and regulatory framework which supports private sector investment.

We have also set out measures needed to support a just transition to a net zero economy by 2050. Electrifying transport requires greater investment in infrastructure across the whole road network and removing barriers to investment such as basic grid connection. For the development of a more circular economy and greater plastic bottle recycling the Treasury should not penalise retailers and producers through the application of VAT on deposit returns – this is a tax on the circular economy. Finally, to meet ambitious minimum energy efficiency targets through to 2030, the Treasury must bring forward capital investment support which enables investment in old building stock.

1 ACS Local Shop Report 2021
2 ACS Community Barometer 2021
3 ACS Local Shop Report 2021
4 ACS Cost of Doing Business Focus Group 2022

ACS' recommendations for the Chancellor of the Exchequer are as follows:

SUPPORT VIABLE BUSINESSES AND THE LABOUR MARKET

- Extend business rate reliefs to April 2023/24 to support retailers manage rising product, utilities and labour costs
- Continue to freeze business rates multipliers for the financial year 2023/24
- Revise proposals around sharing property data and appeals reform to enable the benefits of more frequent business rates revaluations
- We welcome the publication of the consultation on the Online Sales Levy and will play a full part in the consultation process

SCRAP BURDENSOME REGULATIONS BANNING THE PROMOTION AND PLACEMENT OF LESS HEALTHY PRODUCTS

- Scrap plans to ban the promotion and location of high fat, salt and sugar products in local shops from October that will put pressure on household budgets and subdue business investment
- These regulations will cost convenience stores over £92 million to implement, with £26 million of this falling on 2,000 independent small retailers trading under symbol group brands
- Re-invest the costs of enforcing the regulations in better local enforcement against tobacco and alcohol fraud, resulting in more revenue for the Treasury and supporting law abiding businesses

PROMOTING LOCAL, SECURE AND FLEXIBLE EMPLOYMENT

- Scrap the planned increase in Employer National Insurance Contributions (NICs)
- Incentivise good quality employment and target new employment regulation at employers using insecure and one-sided labour models
- Empower the Low Pay Commission to set minimum wage rates independently of political targets after the two-thirds of median earnings target has been met in 2024

SUPPORTING HOUSEHOLD BUDGETS AND PROTECTING TAX RECEIPTS

- Freeze alcohol and tobacco duties to avoid driving consumers towards the black market and away from responsible retailers
- Invest resources in disrupting the illicit and non-duty paid alcohol market, which diverts trade from local shops and causes over £1bn in lost tax receipts
- Account for the impact on business when consider forthcoming Tobacco Control Plan measures
- Freeze fuel duty to support households and businesses to manage rising living and operating costs

DELIVERING A JUST TRANSITION TO THE NET ZERO ECONOMY

- Extend the Rapid Charging Fund for ULEV infrastructure beyond key trunk roads and announce funding to enable National Grid connections that tackle rural range anxiety
- Remove the application of VAT from Deposit Returns Scheme deposits, which would divert investment away from the circular economy
- Encourage investment in reverse vending machines via exemptions from business rates bills and permitted development rights
- Align capital investment support and business rates relief with the government's ambitious energy efficiency targets, to enable investments in old building stock

For more information on this submission, please contact ACS Public Affairs Manager Steve Dowling via steve.dowling@acs.org.uk

SUPPORT VIABLE BUSINESSES AND THE LABOUR MARKET

Extend business rate reliefs to April 2023 to support retailers manage rising product, utilities and labour costs

Business rates relief over the last 24 months has helped retailers continue to trade, make necessary investments and serve their communities throughout lockdowns. While we hope that the worst impacts of the pandemic on the economy have passed, retail businesses are still facing significant pressure from reduced consumer confidence, rising product, utility bills and labour costs.

ACS completed a focus group in January 2022, the full findings are available here, demonstrating the significant cost pressures that retailers are facing. The cost of products and the supply chains that deliver them have increased, utilities bills have doubled, and the labour market has become more competitive. Convenience retailers are having to make difficult decision around the financial structure of their business operations. The feedback is clear that retailers will have no choice but to pass-through costs to consumers given the pace of inflationary increases.

Retailers have attempted to mitigate rising costs by investing in more energy efficient and labour-saving measures, but the rate of increase is outstripping these investments. An indicative retail example would be a convenience retailer who has reduced their energy usage by 5% year-on-year experiencing a doubling of energy bills.

As demonstrated during the pandemic, business rates relief is an effective mechanism for directly reducing retailers' operating costs and enabling investment. We are recommending that the Treasury, at a minimum, should continue the existing business rate relief of 66% for retail businesses for another 12 months to April 2023. In addition the Treasury should review the existing cap of £110,000, revising this up to a total value of £2 million per business.

Continue to freeze business rates multipliers for the financial year 2023/24

We welcome action by the Chancellor in 2021 to freeze the business rates multiple for 2022/2023. Given the Bank of England's forecast that inflation will continue to rise to 7% we believe that the Chancellor should act now and announce a freeze in the business rates multiplier for 2023/24. This will give businesses certainty about their business rates liabilities in the longer term and remove further rising costs for retailers.

Revise proposals around sharing property data and appeals reform to enable the benefits of more frequent business rates revaluation

Three-yearly business rates revaluations will better balance how rateable values track with the property market and certainty for business. Retailers are willing to submit additional property information in good faith to support the Valuation Office Agency, but current proposals significantly underestimate the labour and financial cost of compliance for ratepayers.

Meeting new property data requirements should be possible via bulk uploads, rather than after 'lease events' and annually for all individual hereditaments. We also recommend the 30-day period to submit additional data should be extended to account for retailers with large property portfolios. Removing the 'check' stage of an appeal should reduce how long appeals cases take to resolve, but the three-month deadline to submit a 'challenge' would restrict access to accurate bills and increase the costs of appeals for other retailers by overwhelming demand for rating consultants. These revisions would support an accessible and functioning appeals system.

We welcome the publication of the consultation on the Online Sales Levy and will play a full part in the consultation process

Rebalancing the tax base between community-based and online retailers should ensure all forms of retail contribute fairly to public services and reverse the disproportionate competitive advantage of trading online. It would also support the levelling up mission to "restore a sense of community, local pride and belonging" by improving satisfaction with town centres and the commercial viability of high street retail.

A two-pronged approach is needed: introducing an online sales tax (OST) or 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. An OST should apply to revenues rather than transactions and have exemptions for 'click and collect' and the smallest online businesses.

SCRAP BURDENSOME REGULATIONS BANNING THE PROMOTION AND PLACEMENT OF LESS HEALTHY PRODUCTS

Scrap plans to ban the promotion and location of high fat, salt and sugar products in local shops from October that will put pressure on household budgets and subdue business investment

The Government should scrap plans to introduce a ban on the promotion and location of high fat, salt and sugar products in local shops from October. These measures are often characterised as a 'ban on sweets at checkouts' but in reality the ban covers 15 different product categories, including breakfast cereals, ready meals and yoghurts, and covers checkout & queuing areas, aisle end displays and store entrances. At a time when businesses are still recovering from the pandemic, we should not be asking them to invest tens of thousands of pounds to refit their stores.

These measures are unpopular with consumers and will have a negative impact on household budgets by denying consumers access to promotions on products usually purchased as part of a balanced weekly shop. Consumer polling completed by Yonder Consulting on behalf of ACS demonstrates that government plans to restrict promotions of high fat salt sugar products by price and location are unpopular with the public (44% oppose), particularly among those in the North of England (46% oppose) and less affluent households (46% oppose).

These regulations will cost convenience stores over £92 million with £26 million of this falling on 2,000 independent small retailers trading under symbol group brands

We believe that at least 7,000 convenience stores in England will be impacted by the location restriction regulations. Based on a conservative estimate of £13,000 per site to refit stores and 20 hours' merchandising time at £9.50 per hour, the total one-off compliance costs for the convenience sector could run over £92 million. £26 million of this will fall on 2,000 independent small retailers trading under symbol group brands.

Compliance with location restrictions is not simply a matter of getting store colleagues to move stock from one part of the store another. Convenience retailers will have to invest in refitting large parts of their stores; removing aisle ends, extending the length of aisles, removing refrigeration units and removing or retrofitting checkouts to no longer hold HFSS products.

Re-invest the costs of enforcing the regulations in better local enforcement against tobacco and alcohol fraud, resulting in more revenue for the Treasury and supporting law abiding businesses

Significant local authority investment in trading standards officers will be needed to oversee these regulations. Trading standards officers will have to visit store armed with tape measures and lists of unhealthy products to check that stores are laid out correctly and that promotional mechanisms align with the Department of Health and Social Care's parameters. These resources could instead be deployed in local enforcement against shops and households dealing in illicit alcohol and tobacco, a crime that is significantly under-enforced and which costs the Treasury and legitimate businesses, as well as undermining public health. The Treasury should conduct a cost-benefit analysis – factoring in public spending, health outcomes, business impact and consumer impact - of using resources in this way rather than introducing HFSS restrictions.

PROMOTING LOCAL, SECURE AND FLEXIBLE EMPLOYMENT

Scrap the planned increase in Employer National Insurance Contributions (NICs)

The Health and Social Care Levy would significantly increase tax on retailers and colleagues and should be scrapped, after the Autumn Budget revealed that the public finances are in a stronger than anticipated position since the OBR's March 2021 forecast. The tax burden is already at its highest since the 1950's and the levy would spur inflation further via increased prices as retailers struggle to reduce their employment or product costs within the current trading environment[5]. Increasing non-wage costs of employment would also undermine the Good Work Plan by encouraging the growth of precarious employment models amongst less scrupulous employers.

If the government does proceed with introducing the levy, it must commit to reducing the cost of employment elsewhere for businesses. For example, we would support a review of statutory sick pay to make the rebate scheme permanent and introduce cost-sharing measures which incentivise effective returns to work.

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 above-inflation increases in statutory wage rates and the use of gig economy employment models by competitors. The forthcoming Employment Bill should address one-sided flexibility present elsewhere in the labour market via a targeted approach, without unnecessarily burdening retailers providing good work. A single enforcement body for employment rights must adopt a collaborative culture with employers to provide a leading education and advice function.

Empower the Low Pay Commission to set minimum wage rates independently of political targets after the two-thirds of median earnings target has been met in 2024

We recognise the government's ambition to 'end low pay' by raising the National Living Wage (NLW) to two-thirds of median earnings by 2024. Convenience retailers provide good quality employment and want to pay colleagues as much as possible. However, the £8.91 NLW rate has required retailers to take lesser profits (68%), increase prices (48%) and automate certain processes (44%)[6]. Looking at planned wage increases to £9.50 for April 2022 and more for 2024, retailers believe the NLW will dampen their business investment plans (58%) and the number of employees in their businesses (63%)[7].

Once the NLW reaches two-thirds of median earnings, the rate should be determined independently by the Low Pay Commission, set as high as possible without damaging employment opportunities. Wage rates must 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, encourage flexible working and motivate workers to progress.

5 OBR: Economic and Fiscal Outlook October 2021, paragraph 1.21
6 ACS National Living Wage Survey 2021
7 ACS National Living Wage Survey 2021

SUPPORTING HOUSEHOLD BUDGETS AND PROTECTING TAX RECEIPTS

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

Local shops collect £6.8bn in excise duty on behalf of the Treasury from a range of products and services sold [8]. Continual increases in alcohol and tobacco duty have driven consumers to black market operators that brazenly trade in left behind communities with little fear of reprisals. Freezing duties, in addition to greater enforcement action against black market operators, would subvert these illegal goods and reduce the tax gap.

Invest resources in disrupting the illicit and non-duty paid alcohol and tobacco market, which diverts trade from local shops and results in billions of lost tax receipts

The fiscal statement should allocate additional funding and dedicated resource for HMRC to disrupt the illicit and non-duty paid alcohol and tobacco markets. In recent months many of our members have reported increased problems with the presence of non-paid duty alcohol in the communities they serve. National lockdowns and disruption at UK borders over the last two years have disrupted the criminal gangs that operate the illegal alcohol trade. However, we fear an uplift in the non-duty paid and illicit alcohol trade is underway. Under-pressure household budgets could encourage more consumers towards the illegal market.

We are clear that any retailer found to be selling non-duty paid or illicit alcohol should have their alcohol licence removed and cease trading. However, tougher interventions are only as good as the monitoring and enforcement structures that deliver them. We believe HMRC needs to review its approach to enforcement and sanctions to tackle the illegal trade. HMRC should significantly undermine retailers' ability to trade if they are found to sell non-duty paid or illicit product by removing alcohol licences. This is an effective but underused sanction which we know would deter businesses from engaging in the illicit alcohol and tobacco trade.

Assess proposals for the forthcoming Tobacco Control Plan based on retail sector and treasury impacts

Smoking rates in the UK have fallen significantly from 14.7% in 2018 to 14.1% in 2019, probably due to a combination of societal attitudinal changes, public health campaigns and support to stop smoking[9]. ACS supports retailers to comply with the significant requirements of recent regulations to sell tobacco and e-cigarettes. ACS also published new Challenge25 campaign resources in January, underlining a strong commitment to responsible retailing for tobacco-related products. The forthcoming Tobacco Control Plan should assess proposals affecting the retail of products against their likely impact on smoking rates relative to other interventions, the proportionate cost of compliance for retailers, and treasury impacts.

Freeze fuel duty to support households and businesses to manage rising living and operating cost

Pump prices have now reached record highs due to a seven-year high in the price of oil and high volatility due to international political tensions. Inflation is beyond the government's 2% objective and fuel is a significant contributing factor. The government should freeze fuel duty to help with living costs, to the benefit of businesses as well as households. Convenience stores operating on petrol forecourts are an important part of the market, making up around 17% of the convenience sector[10].

8 ACS Local Shop Report 2021
9 ONS: Adult Smoking Habits in the UK: 2019 7 July 2020
10 ACS Forecourt Report 2021

DELIVERING A JUST TRANSITION TO THE NET ZERO ECONOMY

Extend the Rapid Charging Fund for ULEV infrastructure beyond key trunk roads and announce funding to enable National Grid connections that tackle rural range anxiety

Fuel retailers are investing in electric vehicle (EV) charging points, but they cannot, at present, make the same profitability from the sale of electric to EV road users. The Government must focus on incentivising and supporting investment in EV infrastructure and charging points to help fuel retailers to transition towards a zero-carbon economy. Retailers are facing challenges engaging with power distribution operators and securing planning permissions from local authorities.

Additional government finance is required to facilitate expensive connections to the National Grid. Fuel retailers must invest in new substations at fuel sites to deliver rapid charge points. The cost of installing substations can run to millions of pounds and there are limited prospects to recoup these costs. The £950m Rapid Charging Fund should also be increased and extended to focus beyond key trunk roads.

Remove the application of VAT from Deposit Returns Scheme deposits, which would divert investment away from the circular economy

Applying VAT to drinks containers recycled under a deposit return scheme would confuse the scheme for consumers and create unnecessary administrative burdens for retailers. For these reasons, we encourage HMRC to confirm a VAT exemption for deposits within a deposit return scheme. This would enable progress with the Scottish Government scheme set for introduction in 2023 and help alignment with any eventual scheme for the rest of the UK.

Food and drink itself is often zero-rated for VAT, but deposits are not. This means that under a deposit return scheme, 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 and is damaging for public understanding of a deposit return scheme – a flat 20p can easily be multiplied to assess the monetary value of returning bottles, while an odd amount would obscure simplicity and so discourage engagement. The 20p deposit figure was chosen explicitly because of its simplicity for consumers and VAT is not applied to deposits in schemes active elsewhere in Europe.

Encourage investment in reverse vending machines via exemptions from business rates bills and permitted development rights

The Town and Country Planning (General Permitted Development) (Reverse Vending Machines) (Scotland) Amendment Order 2020 already prevent retailers from needing planning permission to install reverse vending machines (RVMs) to support a deposit return scheme for drinks containers[11]. Reverse Vending Machine Relief is also ensuring business rates bills do not add costs for retailers and undermine the sustainability of the scheme. Similar measures must be extended to the planning and business rates systems elsewhere in the UK to provide clarity for business and lower barriers to installing RVMs. Retailers will be crucial to the success of a deposit return scheme and need this support to play their part. The scheme should be consistent across the UK and cost neutral for retailers with return points located strategically rather than being mandated based on business type.

Align capital investment support and business rates relief with the government's ambitious energy efficiency targets, to enable rural business investments in old building stock

The 'super deduction' enhanced capital allowance announced at Budget 2021 and Improvement Relief from 2023 will encourage retailers to invest in plant and machinery by reducing their tax liabilities. These policies should be extended and linked to the government's ambitious targets to increase the energy performance of commercial properties through to 2030 via Minimum Energy Efficiency Standards (MEES). Improvements to properties will require significant investment by rural retailers which often trade from old inefficient buildings and may not be supported by the super deduction policy in its current form.

11 https://www.legislation.gov.uk/ssi/2020/269/contents/made

ABOUT ACS

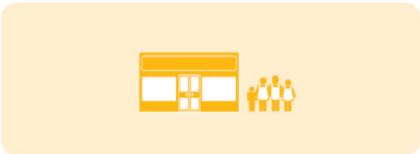
The Association of Convenience Stores lobbies on behalf of over 47,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple 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 almost 19,000 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 over 14,000 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 over 13,000 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls 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

WHAT WE SELL

In 2021, the total value of sales in the convenience sector was £43.2bn.

The average spend in a typical convenience store transaction is £10.82.

WHO WE ARE

There are 47,079 convenience stores in mainland UK. 71% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.

OUR COLLEAGUES

The convenience sector provides flexible employment for around 392,000 people.

9% of independent/symbol stores employ family members only.

HOW WE OPERATE

10% of shop owners work more than 70 hours per week, while 49% take no holiday throughout the year.

72% of business owners are first time investors in the sector.

OUR COMMUNITIES

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.

80% of independent/symbol retailers have engaged in some form of community activity over the last year.

ECONOMIC CONTRIBUTION

Between August 2020 and May 2021, the convenience sector invested over £534m 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 1,200 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 1,200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of around 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,700 stores. The Local Shop Report also draws on data from Lumina Intelligence, IGD, Nielsen and William Reed.

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