

## ACS Submission | Spring Budget 2024



There are **49,388** convenience stores in mainland UK

Convenience stores in mainland UK provide over **437,000 jobs** and colleagues in the convenience sector worked a combined **12.1m hours** a week over the last year

Convenience stores have invested **£646m** in their businesses over the last year

Source: ACS/Lumina 2023

ACS (the Association of Convenience Stores) welcomes the opportunity to provide evidence to the Treasury ahead of the Spring Budget. The past year has posed significant challenges for convenience retailers, who have faced the brunt of inflation and soaring energy costs. Nevertheless, as these difficulties start to ease, it's crucial that these businesses are encouraged and empowered to invest, revitalising their operations for future growth.

Data from the Local Shop Report 2023 highlight the critical role played by convenience retailers in the economy. Their contribution is substantial, with a GVA of £10.6 billion and tax contributions exceeding £9.1 billion. These stores are also vital employment providers, offering flexible and local employment opportunities to around 437,000 people<sup>1</sup>.

The importance of convenience stores goes well beyond their financial impact. These stores are woven into the community's fabric, serving as vital grocery providers, employment sources, community centres, and examples of successful entrepreneurship. Located in diverse settings from town centres to remote rural areas, they offer more than just groceries. With 76% of these stores providing bill payment services, 70% offering cash back, 33% conducting local grocery deliveries, and 22% housing post offices, they play a multifaceted role in their communities<sup>2</sup>. The variety of services and their locations are key reasons why convenience stores are often seen by consumers as having the most positive impact on their local areas<sup>3</sup>.

This submission encompasses a wide range of recommendations. At its core, it is crucial for the Treasury to introduce measures that both enable and encourage business investment. In the past year, convenience retailers have invested £646 million into their businesses. To sustain this momentum and further enhance customer experience, these businesses need a clear and stable policy environment. Additionally, the upcoming budget presents an opportunity to provide adequate and sustainable funding for local authority enforcement. Currently, these authorities are under-resourced and unable to effectively prevent illegal sales of products like tobacco and vapes, or prosecute the sellers. Without sufficient resources, health objectives and responsible retailers are continually undermined by illegal traders. ACS' recommendations to the Chancellor are:

### EMPLOYMENT AND NATIONAL LIVING WAGE

- ⇒ Set future wage rates on objective economic analysis, not new government set targets
- ⇒ Raise the threshold for employer National Insurance Contributions

<sup>1</sup> ACS Local Shop Report 2023

<sup>2</sup> ACS Local Shop Report 2023

<sup>3</sup> ACS Community Barometer 2023

## BUSINESS RATES

- ⇒ Sustain Small Business Rate Relief
- ⇒ Expand eligibility of Improvement Relief to support business investment timeframes
- ⇒ Look to introduce an alternative rating model to redress the imbalance between online and brick & mortar retail

## FUEL, ALCOHOL AND TOBACCO DUTY

- ⇒ Freeze alcohol duties to relieve future inflation & help give businesses the time needed to adjust to the new alcohol duty system
- ⇒ Review the case for further funding for enforcement activity to tackle the illicit tobacco and vaping market
- ⇒ Freeze fuel duty to protect retailers and customers during the cost-of-living crisis and volatile global factors

## PAYMENTS & ACCESS TO CASH

- ⇒ Review ATM interchange fees to prevent the decline of the ATM network
- ⇒ Address the rising cost of accepting card payments for merchants

## EMPLOYMENT AND NATIONAL LIVING WAGE

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The convenience sector continues to be an essential provider of local, secure, and flexible employment, but rising wage rates pose a significant challenge to this. The forthcoming increase in the minimum wage to £11.44 has caused considerable concern among many convenience retailers. Faced with escalated costs, they find themselves compelled to make difficult decisions. These include reducing staff hours, accepting lower profit margins, and ultimately, reassessing the viability of their businesses<sup>4</sup>. This situation highlights the critical need for a careful assessment of the impact of wage policies on the labour market, highlighting that these increases, while intended to benefit workers, can also have unintended adverse effects on businesses and employment opportunities. We are urging the Chancellor to consider the following recommendations:

### *Set future wage rates on objective economic analysis, not new government set targets*

The Government's target for the NLW to reach two thirds of median earnings now achieved, we recommend that the government maintain this target instead of creating new politically set targets. The Low Pay Commission (LPC) should now be empowered to independently set wage rates, moving away from adhering to any new targets. The focus of the LPC should shift towards a thorough independent assessment of economic conditions, productivity levels, and the overall state of the labour market.

This approach would allow them the discretion to account for potential economic shocks and challenges, such as financial crises, cost-of-living pressures, and projected inflation levels. Moreover, the Government should establish a mechanism within the LPC's terms of reference to temporarily pause the uprating in wage rates when they negatively impact employment. Indicators of such adverse effects might include:

- Limited in-work progression
- Decreased attractiveness of entrepreneurship compared to employment

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<sup>4</sup> ACS Low Pay Commission Submission 2023

- Increase in gig economy models by businesses over good work principles
- Reduced business investment due to allocating funds to wage costs instead of promoting productivity, ultimately leading to diminished productivity

### *Raise the threshold for employer National Insurance Contributions*

As NLW rates rise, it's crucial to also consider raising the threshold for employer National Insurance Contributions (NICs). Currently, employers start paying NICs for employees earning £175 per week or £758 per month. This threshold has remained unchanged since April 2022. During this period, the NLW has increased from £9.50 to £11.44, which is a 20.4% increase. Inevitably, these NLW increases mean that employers are paying more in employer NICs, compounding the rise in employment costs.

An upward adjustment in the thresholds for employer NICs would help mitigate the increasing cost of employment faced by businesses. By raising the starting point for these contributions, businesses would see a reduction in the overall financial burden associated with higher wage rates. If we want to maintain high levels of secure employment, it is important that we address rising employment costs now, before businesses in labour-intensive markets adjust their employment structures.

Retailers are approaching a pivotal moment in their decision-making process, weighing the investment in labour against technological alternatives. 69% of retailers are looking to automate certain processes, such as investing in self-service tills for the first time, to manage rising labour expenses<sup>5</sup>. This represents a significant shift in how businesses operate and interact with customers. It's imperative that the Government acknowledges these challenges and provides comprehensive support to ensure that businesses can continue to thrive without compromising on employment quality or customer service.

## **BUSINESS RATES**

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ACS welcomed the business rates support package delivered by the Government at the last Autumn Financial Statement, notably by extending the 75% business rates discount for retail and hospitality businesses through 2024-25, and by freezing the small business rates multiplier. The business rates liabilities of the convenience sector, after relief, still account for £209m<sup>6</sup>. We are urging the Chancellor to consider the following recommendations in the Spring Budget:

### *Sustain Small Business & Retail Rate Relief*

The Small Business Rate Relief (SBRR) scheme and the Retail, Hospitality and Leisure Relief (RHL) remain crucial for the confidence of convenience retailers across the country to invest in and grow their businesses. With only 13% of retailers planning to invest in refurbishing or improving their store over the next year, the lowest level since August 2021, the need for continued support is evident<sup>7</sup>. Although economic indicators, such as inflation, are going in the right direction, consumer confidence remains fragile. This fragility in consumer confidence directly impacts businesses' confidence to invest and grow. Therefore, we urge the government to maintain the existing SBRR and the RHL relief to support these businesses during these challenging times.

The SBRR is an essential relief for all small business operators. In the convenience sector its especially important for maintaining the provision of services in secondary areas, such as villages and neighbourhood parades. While we recognise that the RHL relief cannot be a permanent feature of the rating system, any withdrawal the relief must be carefully managed. Convenience store retailers are still reeling from multiple

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<sup>5</sup> ACS Low Pay Commission Submission 2023

<sup>6</sup> ACS Local Shop Report 2023

<sup>7</sup> ACS Investment Tracker November 2023

shocks include employment, energy and inflation. If we want an investment led recovery to growth in the UK economy these important business rate reliefs must remain in place for a longer period of time.

### *Expand eligibility of Improvement Relief to support business investment timeframes*

The upcoming Improvement Relief, commencing in April 2024, is vital for fostering a business rates system that encourages investment. We propose extending this relief for an additional year, covering the revaluation period until 2026, to provide convenience retailers with greater confidence for planning and executing significant investments. Such investments, ranging from CCTV to store expansions, are crucial for enhancing service delivery to communities and stimulating local economies.

However, the current one-year rates holiday offered by Improvement Relief may not be adequate for businesses planning significant refits or upgrades, as retail investment cycles typically span 5-7 years. Given the extensive planning, budgeting, and execution required for such projects, it's essential to align Improvement Relief with these longer investment cycles. A more extended relief period, ideally covering 3 to 4 years, would incentivise and support substantial long-term investments, allowing retailers to recoup the costs and realise a return on investment.

### *Look to introduce an alternative rating model to redress the imbalance between online and brick & mortar retail*

The Government must address the current disparity between the taxes paid by online businesses and brick & mortar establishments by exploring an alternative rating model within the existing business rates system. A bespoke rating methodology should be used for online distribution warehouses that would more accurately reflect the economic value and impact of these businesses, who currently benefit from a system skewed in favour of non-physical retail spaces. This approach would be far more efficient than attempting to deliver a complex online sales tax.

In other sectors, such as petrol forecourt sites or pubs, the economic value of a business is assessed based on a receipts and expenditure rather than solely on property value per square foot. For instance, petrol forecourts are required to submit detailed information to the VOA regarding their car wash, fuel, and shop sales. This model attempts to capture their economic activity beyond their property footprint. Similarly, for businesses operating distribution warehouses primarily servicing online sales, a comparable approach should be adopted. By considering factors beyond mere property value, such as the volume of online transactions and the scale of distribution operations, this revised methodology would ensure a fairer and more equitable business rates system.

A two-pronged approach is needed: introduce an alternative rating methodology for online distribution warehouses; secondly, then use the revenues generated from this to reduce bills for physical retailers and support the viability of high streets and local services that are under significant pressure.

## **FUEL, ALCOHOL AND TOBACCO DUTY & ENFORCEMENT**

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ACS strongly welcomed the Government's decision last year in the Autumn Statement to freeze alcohol and fuel duty to help ensure businesses can continue to provide value for customers with tightening budgets. The £4.17 billion tax gap driven by the illicit market in tobacco and alcohol continues to blight local communities and the legitimate shops that serve in them and we are recommending the Chancellor considers the following recommendations in the Spring Budget: <sup>8</sup>

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<sup>8</sup> HM Revenue and Customs, Measuring Tax Gaps 2021-22.

### *Freeze alcohol duties to relieve future inflation & help give businesses the time needed to adjust to the new alcohol duty system*

Alcohol continues to be an important product category for convenience retailers, and we welcomed the Government's decision to freeze alcohol duty until 1st August. We urge the Government to further extend freezes on alcohol duty to give businesses the time they need to adjust to the new alcohol duty system introduced in August last year, while continuing to provide value to customers with tight budgets.

We note that the Office for National Statistics' latest Consumer Price Index Report shows that last year we have seen a 9.6% annual increase in alcohol prices which has been acknowledged as contributing to the uplift in inflation at the end of 2023.<sup>9</sup> It would therefore be consistent with the government plan to reduce inflation not to compound price increases with high duty rates.

### *Review the case for further funding for enforcement activity to tackle the illicit tobacco and vaping market*

The latest data on UK tax gaps highlights that the Treasury lost £2.2 billion from non-duty paid tobacco in 2021-22.<sup>10</sup> Following the Government's decision last year to increase tobacco duty, we recommend the Treasury do not increase tobacco duties beyond the existing tobacco duty escalator.

We believe that it is essential that the Treasury review the case for further funding for enforcement activity to tackle illegal activity taking place in the tobacco and vaping market. We welcome the commitment of £30 million more funding for enforcement activity in the government's smokefree generation policy. However, we need a long term look at increased funding for enforcement action in both the tobacco and vaping market.

ACS' 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.<sup>11</sup> It is important Trading Standards officers have the proper level of funding to carry out enforcement operations. 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 and we would again urge the Government to look at increasing enforcement budgets before implementing resource intensive licensing/registration schemes.

Without proper enforcement in the tobacco and vaping market the government strategy on both revenue raising and public health outcomes will fail. It is also an increasing frustration for responsible retailers when enforcement action is not taken. We regularly hear accounts from our members about reporting illegal activity to their trading standards teams and no action being taken.

### *Freeze fuel duty to protect retailers and customers during the cost-of-living crisis and volatile global factors*

We urge the Chancellor to freeze fuel duties in the upcoming Budget for an additional 12 months. This is an important intervention for both retailers and consumers. The business model of the convenience sector necessitates frequent deliveries to ensure product availability, meaning that increased delivery charges from high fuel costs can significantly impact operational costs.

There is extensive scrutiny of fuel prices by government, regulators and the media. We welcome measures to introduce an open data scheme for fuel and a fuel market monitor led by the Competition and Markets Authority (CMA).

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<sup>9</sup> [Office for National Statistics, Consumer price inflation, UK: December 2023.](#)

<sup>10</sup> [HM Revenue and Customs, Measuring Tax Gaps 2021-22.](#)

<sup>11</sup> ACS Trading Standards Survey 2022.

It is important that the government recognise that the CMA's recent road fuel market study concluded that fuel retailers have passed fuel duty cuts on to motorists.<sup>12</sup> The CMA also found that the primary drivers of rising pump prices were increases in crude oil prices, and a widening gap between the price of crude oil and the wholesale prices of petrol and diesel.

This aligns with ACS research, which found that global factors contribute to 49% of the price of fuel at the pump, while taxes and duties account for 47% of the price<sup>13</sup>. Therefore, given the current volatility in the global oil market and its potential impact on UK prices, we urge the government not to increase fuel duties further at this time.

## **PAYMENTS AND ACCESS TO CASH**

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The convenience sector is experiencing a diversification in its payment landscape, moving beyond a simple shift from cash to digital forms. This evolution is becoming increasingly apparent with the rise of mobile payments and the emergence of open banking fin-techs that are crafting payment solutions specifically for the retail sector. ACS maintains a neutral position regarding payment methods, acknowledging that while there's a noticeable decrease in cash transactions, cash still plays a crucial role for a considerable segment of customers who lack access to digital payment alternatives. We strongly encourage the Chancellor to take into account the following recommendations in the upcoming Spring Budget:

### *Review ATM interchange fees to prevent the decline of the ATM network*

ACS welcomes the FCA's new powers to oversee and rectify gaps in cash access. Cash remains a preferred mode of payment in over half of the purchases in the convenience sector, and convenience retailers play a crucial role in facilitating financial inclusion, through providing services such as ATMs, cashback services, bill payment services and Post Offices. This becomes even more vital in the context of widespread bank closures, highlighting the convenience sector's role in ensuring financial accessibility for a broad spectrum of customers.

The FCA's draft Cash Access Framework, which is currently being consulted on, is a positive development. Its flexibility and responsiveness to the varied cash access needs of different local areas and demographics is important, taking into account key considerations such as population demographics, geography, transport infrastructure, and the presence of retailers.

However, the viability of the free-to-use ATM network hinges on a critical review of interchange fees. Currently there is a noticeable trend of ATMs in shops being forced to switch to a pay-to-use model, largely due to the inadequacy of interchange fees in covering the rising cost of maintaining these machines as free-to-use. The challenge is compounded by increasing interest rates and the escalating costs of labour and distribution. Therefore, it is imperative for the Government to conduct a thorough review to ascertain if the ATM interchange fees are at a level that can sustain the FTU ATM network. Without such a review and subsequent adjustments, the viability of these ATMs could be severely compromised and the Cash Access Framework would fail serve its purpose.

### *Address the rising cost of accepting card payments for merchants*

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<sup>12</sup> [CMA Road Fuel Review 2022-2023](#)

<sup>13</sup> [ACS Fuel Price Explainer](#)

Retailers are facing a steep increase in Merchant Service Charges, with many finding it challenging to understand and assess the expenses incurred. These charges, applied to each card transaction, consist of three components: the acquirer fee, interchange fees, and scheme/processing fees. The complexity and opacity of these charges impede retailers' capacity to make educated decisions regarding payment processing, negotiate more favourable rates, and understand their effects on business profitability. It is imperative for both the Treasury and the Payment Systems Regulator to intervene by capping these fees and ensuring enhanced transparency. Such actions would enable retailers to make well-informed choices and more effectively manage their financial operations.