ACS | the voice of local shops

ACS BUDGET SUBMISSION 2021

ACS (the Association of Convenience Stores) represents 33,500 local shops including the Co-op, McColls Retail, BP, Shell and thousands of independent retailers. The sector has stepped up to feed the nation during the pandemic, investing in home delivery services to reach self-isolating and vulnerable customers[1]. 412,000 key worker jobs are provided by the 47,000 convenience stores in Britain, which have invested £585m over the past year and contributed over £10bn in GVA[2].

The impact of Covid-19 on the convenience sector varies greatly depending on trading location. Many rural and neighbourhood stores have seen an uplift in sales, but the pandemic has been detrimental to stores in city centres, high streets, petrol forecourts and transport hubs that are reliant on transient customers[3]. Some stores in these locations are experiencing significant sales declines and require support to retain business viability and jobs during these exceptional times.

The Chancellor can make a real difference to local shops, the locations they trade in and the communities they serve by delivering targeted support measures to support viable businesses to continue trading. The Chancellor can also support a jobs-led recovery by helping businesses mitigate rising employment costs and extending the target for the National Living Wage to reach two-thirds of meaning earnings.

In the medium-term, the Chancellor must seek to deliver a favourable tax and regulatory framework to support that jobs-led recovery. The Government cannot look to British businesses to lead the national recovery without seriously updating the tax system and reviewing the impact of regulatory measures on businesses. The Chancellor should look closely at DHSC obesity strategy proposals to regulate convenience store layouts and restrict their ability to promote many products.

For too long there have only been warm words and lip service paid to reform of the business rates system. The Budget represents an opportunity to set out reforms to the rates system which reduce the burden on the retail sector and gives businesses the certainty needed to invest for the long term. We need business rates multipliers reduced and the whole system geared towards incentivising investment.

ACS' Budget submission sets out the following recommendations for the Chancellor's consideration:

Supporting viable businesses and the labour market

- Extend the business rates retail discount into 2021/22, offering a 50% reduction for all premises and using a financial impact test to target additional support at the most impacted businesses.
- Target policies to address poor employment practices at the gig economy and avoid placing new burdens on employers using traditional employment models.
- Extend the deadline for the National Living Wage's two-thirds of median earnings target and offset rising employment costs to protect jobs.

Reforming the tax and planning system to incentivise investment

- Incentivise investment by introducing a Business Growth Accelerator Relief, reducing the business rates multiplier and enhancing rate reliefs for small businesses that are expanding.
- Avoid adding complexity to the alcohol duty system by distinguishing duty rates by 'place of retail' and freezing alcohol, tobacco and fuel duties.
- Renew permitted development rights to support the adaptability of town centres.

1 ACS Local Shop Report 2020
2 ACS Covid-19 Impact Report: May 2020
3 ACS Local Shop Report 2020

Enabling businesses to transition to a zero carbon and circular economy

- Provide funding to enable investment in EV infrastructure on existing petrol forecourts and other on the go locations, including connections to the National Grid.
- Explore alternative power and mobility options beyond electric vehicles.
- Locate return points strategically, when designing a deposit return scheme, in line with consumer demand and ensure cost neutrality for retailers.

Delivering a favourable regulatory environment and safe communities

- Exempt small shops under 3,000 sq. ft from product location restrictions in the obesity strategy, including symbol group retailers that are widely recognised as small businesses.
- Focus funding on community policing to provide a visible police presence in communities.
- Secure long-term access to cash by restoring the independent setting of ATM interchange fees and guaranteeing fair remuneration for retailers offering cashback without purchase.

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

THE CONVENIENCE SECTOR IN NUMBERS

There are **46,955** convenience stores in mainland UK

Convenience stores provide around **412,000** jobs in mainland UK

Source: ACS/Lumina 2020

Over the last year convenience stores have invested » **£585m** in their businesses

Over the last year, **the convenience sector contributed**

Over **£10.1bn** in GVA
and over **£8.9bn** in taxes

SUPPORT VIABLE BUSINESSES AND THE LABOUR MARKET

Financial impacts of the pandemic will stretch far beyond March when many existing policies are set to expire. Further business support measures are needed but should be more targeted at the most impacted businesses.

Extend the business rates retail discount into 2021/22, offering a 50% reduction for all premises as a minimum.

The 100% business rates relief for 2020/21 has been one of the most impactful interventions for retailers. Almost half (42%) of convenience stores would have closed without the business rates holiday and related financial support[4]. These policies enabled convenience retailers to finance new Covid-Secure requirements in stores to keep their customers and colleagues safe and finance significant increases in operating costs. The Government should taper the reintroduction of business rates for all businesses, initially at 50%, to prevent spikes in operating costs while the impacts of the pandemic continue to supress economic activity.

Fund additional relief for the most impacted businesses, using a financial impact assessment.

The impact of the pandemic has not been equal across sectors and locations. Convenience retailers in villages and neighbourhood parades have seen increased sales but others trading in transport hubs, high streets, city centres and petrol forecourts have experienced significant declines in footfall and sales. The Government should deliver additional targeted relief covering 100% of business rates where businesses can demonstrate a material impact of the pandemic on their turnover through a financial impact assessment. This could draw on the criteria used by the VOA to assess material change in circumstances applications[5] and the approved financial impact test developed for the withdrawn Job Support Scheme for businesses still able to trade[6]. This financial impact assessment must be easy for small businesses to complete.

Offset the rising National Living Wage by increasing the employment allowance and employer NICs threshold.

Continual increases in statutory wage rates mean that convenience retailers must make difficult choices about their future employment strategies. The Government cannot continue to set targets that significantly increase businesses' employment costs and encourage a jobs-led recovery. The Government must offer some mitigating concessions. We recommend that the Chancellor increases the employment allowance and raises the lower earnings limit for employer national insurance contributions. The per-business employment allowance is useful for smaller retailers and a significant increase to employer NICs threshold would result in more meaningful savings across the sector. ACS modelling suggests increasing the threshold to the equivalent of 30 hours per week on the NLW would save the sector 4.2% of its wage bill[7].

Extend the timeframe for the two-thirds of median earnings target for the National Living Wage.

The economic impact of Covid-19 has been severe and is negatively impacting the labour market. The Government's National Living Wage policy to raise the rate to two-thirds of median earnings by 2024 will now further damage opportunities and prospects for jobs. 70% of convenience retailers do not think a £10.69 NLW rate in 2024 is sustainable[8]. Maintaining the 2024 target but with lower annual increases in 2021 and 2022 is not sufficient as this requires steep increases in minimum rates thereafter. NLW policy must account for changes in the economy to prevent rates passing the inflection point where higher rates deter job opportunities and business growth.

Policies to address poor employment practices should be targeted at the gig economy and not place new burdens on employers using traditional employment models.

Convenience retailers supply good work which is local, flexible and secure. This good work is under threat from continual and beyond-inflation increases in statutory wage rates and the use of gig economy employment models by competitors. New regulations of the labour market delivered the forthcoming Employment Bill should not regulate the entire labour market to address the one-sided flexibility present within the relatively small segment of the gig economy. Requirements to record notice periods for shifts and reimburse employees for cancelled shifts would unnecessarily load more costs on responsible employers. This would incur investment costs in software to track notice of work shifts and does not account for covering staff shortages caused at short notice by circumstances outside an employer's control.

4 ACS Voice of Local Shops Survey September 2020
5 https://www.gov.uk/guidance/rating-manual-section-3-valuation-principles/part-2-material-change-of-circumstances-inclucing-mode-or-category
6 https://www.gov.uk/guidance/complete-a-financial-impact-test-if-youre-a-large-employer-claiming-through-the-job-support-scheme-open
7 https://www.acs.org.uk/sites/default/files/lobbying/acs_2020_budget_submission.pdf
8 ACS National Living Wage Survey 2020

REFORM AND SIMPLIFY THE TAX SYSTEM TO INCENTIVISE INVESTMENT

The time for warm words and reviews is over. We need meaningful reform of the business rates system to immediately reduce the overall burden of rates on the retail sector.

Incentivise investment by introducing a Business Growth Accelerator Relief, reducing the business rates multiplier and enhancing rate reliefs for small businesses that are expanding.

We welcome action from the Treasury to freeze future annual increases in business rates. However, the Chancellor must go further to reduce business rates multipliers, bringing down the overall burden on bricks mortar retailers and other property intensive industries. The UK tax system must modernise and adapt to raise more revenue from growing levels of online economic activity through the introduction of an online sales levy or alternative rating methodology for online distribution warehouses[9].

Simple reforms could also be made to better align the business rates system with supporting business growth. Adding essential plant and machinery, for example CCTV or fire safety systems, increases bills for convenience retailers[10]. This subdues investments and the positive benefits of store improvements from being realised, such as increased energy efficiency or reduced crime. A scheme delaying increases in bills for at least two years would unlock further investment by allowing retailers to recoup costs, similar to the Scottish Government Business Growth Accelerator.

One perverse outcome of the current Small Business Relief scheme is that retailers lose support if they expand their business to operate a second convenience store. This is a key disincentive to independent retailers expanding into other often underserved and isolated communities. We would therefore support the Treasury considering expanding the eligibility threshold on a second premises from the current level of £2,899 RV or a combined £20,000 RV.

Avoid adding complexity to the alcohol duty system by distinguishing duty rates by 'place of retail'.

The alcohol duty system should not distinguish by 'place of retail' and should remain blind to the type of business that is selling the product. Alcohol duty should be applied at the highest point in the supply chain, to make it easier for the Government to collect tax receipts and reduces opportunities for duty evasion further down the supply chain. Distinguishing between place of retail would deliver a higher alcohol duty rate for local shops, which would only serve to add further complexity, cost, and administration to an already complex system.

Freeze alcohol and tobacco duties.

The Chancellor must recognise that continual increases in duty rates drive consumers to the illicit trade and cause increased revenue gaps for the Exchequer. We want to see greater enforcement action against black market operators and a freeze in duties on alcohol and tobacco products that push consumers away from responsible retailers.

Freeze fuel duty.

We welcome action in previous Budgets to maintain a freeze in the fuel duties. We urge the Government to continue to freeze fuel duties in 2021.

Renew permitted development rights to support the adaptability of town centres.

The setting of new permitted development rights from August should recognise high streets and parades as evolving social and economic hubs and support local businesses to adapt and diversify. The new E Use Class will enable greater flexibility for retailers to expand ancillary uses as some re-evaluate business models in light of the economic impacts of Covid-19.

Checks are required on retail to residential conversions. These changes of use should only be approved following proper consideration of: the potential impact on the economic health of the retail centre, the need to maintain an adequate provision of essential local services, and the potential impact on the local character of the area. These three safeguards should ensure conversions support effective retail provisions, especially in areas where property is worth more for residential than non-domestic uses.

9 See ACS' Business Rates Review Submissions Tranche 1 and 2 2020
10 https://www.gov.uk/guidance/how-non-domestic-property-including-plant-and-machinery-is-valued#what-counts-as-plant-and-machinery

ENABLING BUSINESSES TO TRANSITION TO A ZERO CARBON AND CIRCULAR ECONOMY

The Government's ambitious target for banning the sale of petrol and diesel vehicles will require funding and support for the transport industry to transition. This include the UK's 8,382 petrol forecourts that are a fundamental part of the strategic road network. The introduction of a deposit return scheme must also account for the impact and pressure it will place on business operations.

Provide funding to enable investment in electric vehicle infrastructure on existing petrol forecourts, including connections to the National Grid.

Fuel retailers are investing in 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 to zero carbon economy. More funding is also needed to facilitate direct connections between fuel retailing sites and the National Grid in order to meet consumers' rapid charging needs on the go. 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.

Explore alternative power and mobility options beyond electric vehicles.

The 2030 target brings into sharp focus the multiple uncertainties about future mobility solutions and has an impact on fuel retailers' confidence to invest in new infrastructure. The UK Government is heavily focused on EV as the mobility solution for the UK transport network, but there remains a great deal of uncertainty about alternative future transport solutions. The most likely scenario is that we will see a multitude of fuelling options – E10, EV, Hydrogen - progressing at the same time, meaning fuel retailers must make multiple investments in expensive infrastructure with limited prospects for higher profitability.

Locate return points strategically, when designing a deposit return scheme, in line with consumer demand and ensure cost neutrality for retailers.

Return points should be determined by strategically-mapping locations rather than mandating every location that sells drinks to take back containers. Outlets smaller than 280 sq. m. should be given the opportunity to opt into the scheme if they have sufficient sales and storage space and can collect sufficient volumes of returns. Handling fees must adequately cover the costs of taking back drinks containers, accounting for staff time, the cost of reverse vending machines and lost sales space, so that a DRS is cost neutral for return points. The scheme also needs to be coherent alongside other extended producer responsibility schemes, including reforms to the PRN system and introduction of the plastic packaging tax.

DELIVERING A FAVOURABLE REGULATORY ENVIRONMENT AND SAFE COMMUNITIES

The implementation of regulatory action must account for the impact on businesses that offer good employment opportunities and provide essential services in the community. We believe that the Government must review its proposed interventions on location restrictions under the obesity strategy.

Exempt small shops under 3,000 sq. ft from product location restrictions, including symbol group retailers.

ACS welcomed an exemption for the smallest stores from the location restrictions proposals in the obesity strategy. However, 2,000 sq. ft is not an industry-acknowledged threshold, making it difficult for retail businesses to demonstrate this to enforcement officers. The use of a 3,000 sq. ft threshold would install a widely understood industry and enforcement community threshold. Retailers with stores between 2,000 - 3,000 sq. ft will face significant costs to redesign store layouts, move fixed counters and refrigeration units as well as labour costs to refit stores.

The Government is seeking to include symbol group retailers in the proposals and the enforcement consultation compares symbol groups to franchises. However, symbol group stores operate completely differently to franchise businesses in fast food and other sectors. Symbol group retailers are in every respect independent small businesses as recognised in the business rates system and by HMRC. Symbol group retailers are corporate entities, that are registered as limited companies on Companies House and have autonomy on the operation of their business. These retailers should be exempt on the grounds that their businesses have under 50 employees, rather than being grouped with their wholesaler head office.

Focus funding on community policing to provide a visible police presence in communities.

Police resources have an impact on forces' ability to respond to crime against local shops, especially shop theft which is high volume and low value. These crimes are not victimless, our data shows shop theft is a trigger for violence[11]. We welcome the recruitment of 20,000 new police officers, but Government investment must focus on community policing to provide a visible presence in the community and the ability for officers to better respond to retail crime.

Despite being recognised as key workers, ACS' Covid-19 Impact Survey showed that 40% of convenience retailers saw an increase of violence and abuse from customers in their stores during lockdown, including coughing and spitting assaults[12]. Retailers attribute higher levels of abuse to customers frustrated by social distancing measures implemented in line with Government guidance for their protection. Shopworkers must be protected by a statutory aggravated offence, similar to the penalties that exist for attacking other key workers.

Secure long-term access to cash by restoring the independent setting of ATM interchange fees and guaranteeing fair remuneration for retailers offering cashback without purchase.

Competitive pressures from bank members within LINK caused the arbitrary reduction of fees which sustain the network. ATMs are the only suitable national infrastructure for access to cash and overwhelmingly preferred by consumers and retailers for privacy and security reasons[13]. ATM interchange fees must be set independently with bank participation mandated within a single ATM scheme.

We would support enabling cashback without a purchase, but without any obligation for retailers to offer the service and guaranteed fair remuneration. 68% of convenience retailers offer cashback linked with a purchase, but the service is often not actively promoted due to the cost of processing cashback transactions (15p minimum for a one-minute transaction based on NLW rate), losses in staff productivity and higher security risks and insurance premiums.

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

11 ACS Crime Report 2020
12 ACS Covid-19 Impact Survey
13 Britain Thinks Access to cash research with consumers and small businesses July 2019.

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of over 46,000 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.

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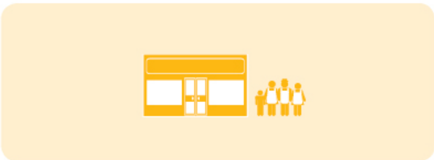
WHO WE REPRESENT

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 2020, the total value of sales in the convenience sector was £44.7bn.

The average spend in a typical convenience store transaction is £7.46.

WHO WE ARE

There are 46,955 convenience stores in mainland UK. 72% 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 412,000 people.

13% of independent/symbol stores employ family members only.

HOW WE OPERATE

22% of shop owners work more than 60 hours per week, while 24% 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 2019 and May 2020, the convenience sector invested over £585m 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