



ACS Submission: Rural Economy Committee

1. ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the House of Lords Select Committee on the Rural Economy. ACS represents local shops and petrol forecourts trading in rural areas, including Co-op, McColls, BP and thousands of independent retailers, many of which trade under brands such as Spar, Nisa and Costcutter. Further information about ACS is available at Annex A.
2. There are over 19,000 rural convenience stores in mainland UK, providing a core grocery offer and expanding range of services including bill payment services (54%), free to use ATMs (44%), recycling services (40%) and local grocery delivery (20%) in communities across the country¹. Rural convenience stores provide more than 143,000 jobs and 57% are trading in isolated locations with no other retail or service businesses close by².
3. Rural convenience stores are increasingly dynamic and responding to changing consumer needs to shop little and often, investing £315 million over the past year and making a valuable contribution to the rural economy³. Convenience stores are valued by local communities, ranked by consumers and councillors as the service with the second most positive impact locally, behind only Post Offices which 32% of rural shops host within their business⁴.
4. We believe this Inquiry should consider how to support rural business infrastructure and retain access to services within the rural economy. The business rates system should incentivise investment from rural shops, the Access to Banking Standard must ensure branch closures and alternative banking provisions are communicated effectively, while changes to ATM interchange fees should not disproportionately restrict access to cash for rural consumers.
5. We have responded to the consultation questions below. For more information, please contact Steve Dowling, ACS Public Affairs Executive, via steve.dowling@acs.org.uk or 01252 533009.

What barriers to growth are created by poor digital connectivity? How can connectivity be improved across the board?

6. Reliable broadband connections and mobile coverage have become essential infrastructure for rural shops. Poor connectivity can act as a barrier to improving productivity and delivering growth in the wider rural economy. Rural shops require digital access to process online banking and wholesaler services and to facilitate the in-store provision of card payments, ATM transactions and post office services. HMRC's Making Tax Digital reforms to require digital record keeping and online tax reporting, initially for VAT from 2019, will further enhance the need for reliable internet connections for rural businesses.

¹ ACS Rural Shop Report 2018

² ACS Rural Shop Report 2018

³ ACS Rural Shop Report 2018

⁴ ACS Rural Shop Report 2018

7. The rural economy has benefitted from successful Government investments in digital, for example the Government's existing rollout of superfast broadband delivered £12.28 benefit for businesses for every £1 invested by the Government and local authorities⁵. However, 31% of convenience retailers still find that their local broadband services and mobile coverage is making it difficult or causing delays to completing tasks in the business, disproportionately impacting retailers in rural locations⁶.
8. We therefore support the Universal Service Obligation (USO) for broadband and Ofcom's ongoing responsibility to implement the policy by 2020. The USO should ensure retailers can perform the core business functions outlined above without delays. We welcome the Government commitment to review the USO's specification as consumer and business needs change, which should be considered alongside a need to expand mobile data networks to limit the restrictive effect of mobile broadband use on bandwidth for broadband connections.
9. Rural shops can be frustrated by inconsistent mobile coverage. The Government's updated 5G Strategy indicates a renewed political focus on mobile coverage and we would support a realised ambition for 95% geographic mobile coverage across the UK by 2022⁷. The recent Future Telecoms Infrastructure Review has delivered on the Industrial Strategy commitment to consider how to strengthen investment in digital infrastructure and longer-term funding for strengthening rural connectivity should be addressed through the upcoming Autumn Budget⁸.

6. What can be done to improve and maintain provision for essential services such as healthcare, education and banking in rural areas?

10. Convenience stores provide a range of essential services, often consolidating services which have previously been delivered by individual businesses but are no longer commercially viable as standalone businesses, for example Post Offices, off licences and banks.
11. ACS' Community Barometer, a survey looking at what consumers and councillors think about the services available in their area, demonstrates the value attributed to convenience stores retaining access to these local services. The research finds that convenience stores are ranked as having the second most positive impact on their local area, behind only Post Offices which 32% of rural convenience stores host within their business⁹.

Business Rates

12. ACS' Community Barometer also finds retailers view business rates as the number one policy priority for their area¹⁰ and one-in-three convenience stores saw an increased rateable value from the 2017 revaluation¹¹. The business rates system

⁵ [Need for speed drives £9 billion superfast broadband boost](#) DCMS. 20 August 2018.

⁶ ACS Voice of Local Shops Survey: February 2018

⁷ [Next Generation Mobile Technologies: An Update to the 5G Strategy for the UK](#) DCMS. December 2017.

⁸ [Future Telecoms Infrastructure Review](#) DCMS. July 2018.

⁹ ACS Rural Shop Report 2018

¹⁰ ACS Community Barometer 2017

¹¹ ACS Voice of Local Shops Survey: November 2016

should encourage the retention of essential services through rural shops to benefit the rural economy.

13. The Local Government Finance Bill contained a commitment that rural businesses should be offered the best rate relief available for their business. After the failure of the Bill, local authorities have been provided temporary funding to top up 50% mandatory Rural Rate Relief so rural shops are not disadvantaged compared to stores receiving Small Business Relief. The Government should find Parliamentary time to permanently ensure rural retailers receive the best rate relief available.
14. The eligibility threshold for rural forecourts to receive Rural Rate Relief needs to be revised to reflect the higher business rates bills they attract. Unlike rural shops, business rates for rural forecourts are based on turnover, which means their rateable values are significantly higher. The £12,500 rateable value threshold for petrol forecourts needs to be increased to support the provision of rural forecourts and effective transport infrastructure.
15. The Localism Act provided local authorities with powers to issue Discretionary Rate Relief. These powers are not being used effectively to support services through rural shops, despite use of Discretionary Relief being 50% funded by central government. Greater funding streams must be found to ensure better use of Discretionary Rate Relief from financially-challenged local authorities to support the rural economy, which has only been used by 39 out of 326 local authorities¹².

ATMs

16. Bank branch closures and associated ATM closures have increased the role that rural shops play in providing local access to cash, with 55% hosting an ATM¹³. However, convenience retailers are concerned that the increasing cost of hosting ATMs, from reductions to interchange fees and increases in business rates, could force them to either move more ATMs onto a charging model or remove ATMs altogether.
17. Every time a consumer uses an ATM an interchange fee is paid from their card issuer (bank/building society) to the provider of the ATM they are using. The contract a retailer has with an ATM provider to host an ATM determines their share of this revenue after servicing costs, cash replenishment, business rates and other costs are subtracted.
18. LINK, the ATM network body, reduced ATM interchange fees from 25p to 23.75p on 1st July 2018 and will implement a further reduction to 22.5p on 1st January 2019. Although a scheduled interchange fee reduction for 2020 has been postponed, further reductions to interchange fees from 2021 are expected¹⁴.
19. Future cuts to interchange fees could reduce the commercial viability of ATMs for retailers and undermine national coverage of the network, particularly in rural areas. Interchange fees were set by an independent KPMG cost study until these cuts were announced and we would welcome an independent review into how interchange is set to ensure communities continue to gain access to cash and basic banking services.

¹² [Devolution will not solve business rates burden groups warn Treasury](#) Telegraph. 24 October.

¹³ ACS Rural Shop Report 2018

¹⁴ [LINK update to Interchange rate implementation](#) LINK. 16 July 2018.

20. LINK has stated that cuts to interchange fees will not harm rural areas due to plans to extend its Financial Inclusion Programme, which will increase subsidies for isolated ATMs in low-income areas, and exempt FTU ATMs further than 1km from the next FTU ATM from interchange fee reductions. The Payment Systems Regulator modelled the impact of cuts in interchange fees earlier in the year, finding that ‘rural ATMs are more likely to be at risk and geographically isolated than their share of the national network would imply’ with 57% of FTU ATMs that would be at risk of closure based in rural areas¹⁵. LINK must be held to account on its implementation of changes to the Financial Inclusion Programme, including how it will calculate travel distance between ATMs and how many ATMs the Programme will financially support. LINK’s monthly reports to the Regulator must be publicly available, demonstrating how coverage is changing in rural areas and how LINK is acting to rectify ATM deserts.
21. ATMs have been liable for business rates since 2013, with the average convenience retailer billed £4,000 on average for hosting an ATM, separately to rates payable for the shop¹⁶. Business rates liability for ATMs is currently subject to a legal case at the Court of Appeal¹⁷. Regardless of the legal outcome FTU ATMs should be exempted from business rates bills in recognition of their role as an essential service in rural areas by facilitating access to cash and encouraging consumer spending.

Banking

22. Banking services are essential for rural shops, which continue to be dominated by small basket spends and cash payments, accounting for 73% of all transactions. Access to banking services for small and rural businesses is becoming more difficult as banks reduce their branch networks. Which? research indicates that 16% of the banking network closed between 2015 and 2017¹⁸. These branch closures are causing retailers to travel further to deposit cash, lowering productivity and adding to costs for keeping cash on the business premises between deposits through increased insurance premiums and costs for drop safe facilities.
23. The Post Office now offers business banking services to deposit cash, especially valuable where local banking provisions have declined. Post Office branches allow ‘walk in’ cash deposits of up to £2,000 per transaction, covering 90% of business transactions¹⁹. For sums above that figure, Post Office and the relevant bank work with the business customer to arrange specific services up to an agreed sum. However, some retailers still have to submit multiple deposit forms or travel long distances to larger Post Office branches to deposit larger sums of cash. This process can be costly and time consuming for rural shops.
24. The Access to Banking Protocol has been independently reviewed by Professor Griggs and resulted in the new Access to Banking Standard, an industry-wide agreement to minimise the impact of branch closures. The Standard must ensure that banks communicate at the earliest opportunity when a local branch is closing, are transparent about the reasons for the closure and support their business customers to find alternative provision.

¹⁵ [ATM Impact Study: Summary Findings](#) Europe Economics. January 2018.

¹⁶ [£300m of business rates refunds held until “cash tax” decision reached](#) Retail Gazette. 21 May 2018

¹⁷ [Around 40,000 ATMs could be closed down as the authorities fight to slap them with crippling business rates](#) Daily Mail. 5 July 2018.

¹⁸ [Mapped: the 482 bank branches closing in 2017](#) Which? 7 April 2017

¹⁹ [House of Commons Scottish Affairs Committee](#). 17 January 2018.

Post Offices

25. We welcome provisions in the Post Office funding settlement to provide £160 million to support rural Post Offices and the essential services they provide to rural communities and businesses²⁰. The allocation of this funding needs to be clearly communicated to rural retailers, so they understand how the funding can support their business.
26. The future of the Post Office network will be determined by relationships with the businesses that host them. We welcome that the Post Office has recognised that the network must continue to be an attractive proposition for retailers in future²¹. The Post Office should continue to work with retailers to understand the increased cost pressures they are facing from employing and training staff to operate branches, changes in the ever-competitive retail environment and evolving consumer needs.

8. How can rural businesses be helped to thrive, and how can new industries and investment be supported? How might labour and skills shortages be overcome?

27. Over the last year, there has been growth in the breadth and depth of service provision amongst rural shops. For example, more rural-based retailers are offering home grocery deliveries and recycling services. Measures to incentivise investment from rural shops and remove barriers to setting up community shops would grow service provisions in the rural economy.

Incentivising Investment

28. Over the last year, rural convenience stores have invested £315 million in their businesses²². Incentivising investment through the business rates system would deliver greater investment from the sector, strengthening the rural economy and service provisions within local shops.
29. The current business rates system discourages business investment by penalising ratepayers that invest in their business. For example, if a convenience retailer extends their premises or adds an air conditioning unit, pallet racking or CCTV cameras their business rates bills increase. This deterrent should be reversed by providing time limited exemptions for internal property developments and expansions. This would follow the Scottish Government's 'Growth Accelerator', delaying increases in business rates bills for 12 months to allow businesses to recoup their investments²³.

Community Shops

30. The community shop sector has experienced consistent growth within the rural economy in recent years, growing from 240 shops in 2010 to 348 in 2016²⁴. Community-owned shops, most commonly legally established as community benefit societies, are providing essential services to 1,400 remote rural communities often following closures of local shops with 59% offering postal services²⁵.

²⁰ [Government pledges to secure the future of the Post Office](#)

²¹ [Post Office Annual Report 2016/17 Operational and Financial Risks pg 34](#)

²² ACS Rural Shop Report 2018

²³ [Response to the Barclay Review report](#) Scottish Government. 12 September 2017

²⁴ ACS Rural Shop Report 2018

²⁵ ACS Rural Shop Report 2018

31. The community shop sector is a valuable economic contributor to the rural economy, providing over 1,100 paid jobs and generating a combined turnover of £54 million²⁶. Community shops are also important community actors, providing almost 10,000 volunteer opportunities and donating £125,000 to community projects²⁷. The Plunkett Foundation supports community businesses to set up and thrive, offering advice and working closely with rural communities. The Inquiry should consider views from the Plunkett Foundation about how policy could support the development of community shops.

Employment

32. Rural shops are valuable employers in the rural economy, employing 143,000 people into stable employment with opportunities for progression²⁸. ACS' Colleague Survey finds that 49% of colleagues walk to work and 32% have been working in their job for more than five years²⁹. Job security is very important to staff working in convenience stores, and three fifths think they will still be working for their current employer in five years' time, almost a quarter (24%) of which think they will be in a more senior role³⁰.
33. Convenience stores employ local people and members have not reported difficulties hiring staff in rural locations. Forthcoming employment challenges for rural retailers are not expected to result from difficult retail locations or skills shortages, but from increased competition for workers across sectors.
34. Convenience stores in the rural economy will experience little direct impact from any labour market tightening resulting from the UK's exit from the European Union. Only 2% of colleagues are non-UK EU nationals and the settled status agreement has provided useful clarification for employers to inform recruitment strategies³¹. The main impact of Brexit on employment in the sector may come further up the supply chain in the wholesale sector where more non-UK EU nationals are based. Retailers expect there will be more competition amongst employers for a smaller pool of staff once we leave the EU, specifically across sectors with low entry requirements such as retail, hospitality and social care.

13. How have recent planning policy reforms affected rural housing and the wider rural economy? What changes, if any, are needed to planning rules?

35. The planning system is an important regulatory tool for ensuring the correct provision of housing and commercial uses in communities across the country. Planning trends for rural shops include shops increasingly taking food service operations into their business and expanding into other service provisions that can require planning permission, for example click and collect lockers.
36. We support a plan-led planning system and welcome the revised National Planning Policy Framework adopting the 'agent of change' principle. This will ensure that existing rural shops do not have to change their business practices, for example delivery times or opening hours, due to new residential developments. However, we are concerned by recent changes to permitted development rights which could

²⁶ ACS Rural Shop Report 2018

²⁷ ACS Rural Shop Report 2018

²⁸ ACS Rural Shop Report 2018

²⁹ ACS Colleague Survey 2018

³⁰ ACS Colleague Survey 2018

³¹ ACS Colleague Survey 2018

undermine retail provision in rural areas and restrict new retail developments to meet consumer demand elsewhere.

37. Changes from retail to residential should be considered alongside a coherent plan to ensure local services are located effectively to best meet local needs. In rural locations, properties can be more valuable as residential premises than commercial uses despite often being the last service offer in a village. For these reasons changes of use from retail to residential 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 work to ensure retail to residential conversions can support the effective allocation of retail and housing provisions in conjunction with the Local Plan.
38. Permitted development rights for changes of use within the A1-4 Use Class are valuable for reducing hurdles in the planning system. Although we support the best opportunity being given to retain existing A1-4 services, this should not come at the expense of new service provisions where local demand is not met. Legislation passed in the Neighbourhood Planning Act 2017 to remove permitted development rights for the change of use of A4 drinking establishments does not encourage rural areas to adapt to changing consumer demands. This undermines the flexibility increasingly needed by local high streets and shopping parades to retain footfall. The requirement for planning permission to convert from a pub to a shop is therefore an unnecessary burden in the planning system.

For more information on this submission, please contact Steve Dowling, ACS Public Affairs Executive, via steve.dowling@acs.org.uk or 01252 533009.

Annex A

ABOUT ACS

The Association of Convenience Stores lobbies on behalf of around 50,000 convenience stores across mainland UK on public policy issues that affect their businesses. ACS' membership is comprised of a diverse group of retailers, from small independent family businesses running a single store to large multiple convenience retailers running thousands of stores.

Convenience stores trade in a wide variety of locations, meeting the needs of customers from all backgrounds. These locations range from city centres and high streets, suburban areas such as estates and secondary parades, rural villages and isolated areas, as well as on petrol forecourts and at travel points such as airports and train stations.



WHO WE REPRESENT

INDEPENDENT RETAILERS



ACS represents 22,397 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 14,659 retailers affiliated with symbol groups. Symbol groups like SPAR, Nisa, Costcutter, Londis, Premier and others provide independent retailers with stock agreements, wholesale deliveries, logistical support and marketing benefits.

Symbol group forecourt operators and franchise providers like One Stop are also included in this category.

MULTIPLE AND CO-OPERATIVE BUSINESSES



ACS represents 12,862 stores that are owned by multiple and co-operative retailers. These businesses include the Co-Operative, regional co-operative societies, McColls, Conviviality Retail and others.

Unlike symbol group stores, these stores are owned and run centrally by the business. Forecourt multiples and commission operated stores are included in this category.

THE CONVENIENCE SECTOR



In 2017, the total value of sales in the convenience sector was £38bn.

The average spend in a typical convenience store transaction is £6.28.



There are 49,918 convenience stores in mainland UK. 74% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.



The convenience sector provides flexible employment for around 370,000 people.

24% of independent/symbol stores employ family members only.



20% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

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



Convenience stores and Post Offices poll as the two services that have the most positive impact on their local area according to consumers and local councillors.

79% of independent/symbol retailers have engaged in some form of community activity over the last year.



Between August 2016 and May 2017, the convenience sector invested over £858m in stores.

The most popular form of investment in stores is refrigeration.

OUR RESEARCH

ACS polls the views and experiences of the convenience sector regularly to provide up-to-date, robust information on the pressures being faced by retailers of all sizes and ownership types. Our research includes the following regular surveys:

ACS VOICE OF LOCAL SHOPS SURVEY

Regular quarterly survey of over 1200 retailers, split evenly between independent retailers, symbol group retailers and forecourt retailers. The survey consists of tracker questions and a number of questions that differ each time to help inform ACS' policy work.

ACS INVESTMENT TRACKER

Regular quarterly survey of over 1200 independent and symbol retailers which is combined with responses from multiple businesses representing over 3,000 stores.

ACS LOCAL SHOP REPORT

Annual survey of over 2400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 6,291 stores. The Local Shop Report also draws on data from HIM, 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