

ACS Submission: Delivering a Tax Cut for Small Businesses a New Small Business Rates Relief Scheme for Wales

ACS (the Association of Convenience Stores) represents the 3,000 plus convenience stores and forecourt shops trading in Wales, with members 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 contained in Annex A.

Q1. The Welsh Government is interested in your views about the current and future funding of SBRR in Wales, including how the multiplier operates.

We welcome the discussion about the funding structure of the small business rate relief scheme in Wales. Splitting the multiplier between small and large businesses is the funding mechanism used by other Governments across the UK but is not as straightforward in Wales given the high proportion of small businesses that fund the system.

Changes to the multiplier should form part of a longer-term discussion about funding of the business rate relief system in Wales. As a change in the multiplier would require the introduction of primary legislation it is unfeasible for the Welsh Government to consider introducing this before April 2018.

Q2. Do you agree that a limit should be introduced on the amount of relief a business occupying multiple small properties in Wales can receive? If so, to what extent do you think this should be restricted?

No. Wales has an exemplary small business rates relief system because it provides support for small format businesses of all business types. The Welsh Government's small business rate relief scheme encourages business models of all types to occupy small premises in rural, urban and suburban locations across Wales.

The proposed limitation of reliefs for businesses occupying multiple properties contradicts other policies that the Welsh Government has only recently introduced such as the High Streets Rate Relief Scheme¹. The High Streets Rate Relief Scheme provides relief for businesses with a rateable value of up to £50,000 with a £1,500 reduction in rates. Many of these businesses are also likely to be operating multi-site premises – why should this principle only work in certain locations but not others?

We have concerns about the removal of funding to support small format business that provide essential services in communities across Wales. Whilst the ownership model of multiple operated sites may be different the services that they provide are of equal importance and value to consumers². The Welsh Government should also consider that the distribution network for supplying multiple site convenience store businesses are higher, especially in Wales, where the population is spread out across a wide range of rural communities.

Q3. What are the associated administrative and technical implications of the Welsh Government's preferred approach which need to be considered?

¹ [Welsh Government High Streets Rate Relief Guidance](#)

² ACS Community Barometer find that Post Office, Convenience Stores and Pharmacies have the most positive impact on communities.

Per Business Premises Threshold for Small Business Rate Relief

The Welsh Government's preferred option of restricting rate relief to a set number of premises per business has the least administrative implications for convenience retailers. This is because this option would remove all application processes. Experience of different rate relief schemes across the UK suggest that the most benefit is gained when rate relief is automatically deducted from rates bills instead of ratepayers having to apply to local authorities for funding.

The appropriateness of allocating relief on a per business premises basis depends on where the per business premises threshold is set. There are numerous small and medium sized convenience store chains in Wales operating more than one site. The ACS Local Shop Report 2017 found that 23% of independent retailers in Wales operate more than one store – these businesses are most likely to benefit from small business rate relief³.

In addition to these independent multi-site operators there are large businesses, like the Co-op, McColls Retail and supermarket convenience store operators. Based on analysis of a small sample of large multiple site convenience retailers⁴ in Wales, the majority have large footprint stores in prime central locations, with very few currently qualifying for small business rate relief. Therefore, the Welsh Government must be sure that the removal of small business rate relief for multiple sites does not disproportionately impact small and medium sized businesses with growth potential.

Before the Welsh Government removes small business rate relief for multi-site operators they should complete and publish analysis on the number of businesses that benefit from the scheme and their operating model. It is likely the removal of small business rate relief for multi-site operators would not only impact large business but also small and medium size businesses and the Welsh Government should consider if this aligns with their tax objectives.

In determining an appropriate business premises threshold for multiple site operators, the Welsh Government should consider alternative definitions for small and medium sized businesses as proxies. For example, according to the Companies Act 2006 a business with fewer than 250 employees is considered a small to medium size enterprise (SME). Welsh convenience stores employ on average 8.3 employees per store, meaning that a convenience retailer would have to operate 30 premises before they meet this threshold. The threshold that the Welsh Government settles upon must be kept under close annual review.

Per Business Premises In Each Local Authority Threshold

We would not support the option for small business rate relief for multiple premises to be restricted by the number of premises per local authority area. This is because there is a higher density of the population in Wales concentrated in a small number of local authority areas in south Wales. Convenience retailers' store locations follow closely with population density. Therefore, multiple site operators with numerous stores in a small number of local authority areas are likely to be disadvantaged under this scheme.

³ ACS Local Shop Report 2017

⁴ ACS analysed a sample of rateable values of four multi-site convenience store retailers in Wales by using the VOA online look up service. Based on a sample of 70 stores only 11% would benefit from small business rate relief.

ATMs

We seek clarification from the Welsh Government about what the definition of a “premises” will be under an amended rate relief system. Would a premises be based on the rateable value of the shop only or total separate on-site hereditaments into one value, including ancillary hereditaments such as ATMs? 44% of convenience stores host ATMs in Wales and these ATMs are rated separately⁵. It would be unfair if hosting a ATM prohibited access to small business rate relief for multiple site operators.

Q4. Comments are invited about the effects (whether positive or adverse) such a limit could have on ratepayers affected or excluded from this relief.

The Welsh Government must consider the impact a restriction on the small business rate relief system would have on multi-site businesses investment decisions. In the last year convenience store operators in Wales invested £55 million in their stores⁶. These investments have focused on improving stores (some elements of this will increase their business rates bills) and investing in new premises.

Introducing the per business premises threshold at too low a level could negatively impact on investment decisions and the expansion of new stores in new locations by small and medium sized firms when they reach the threshold cliff edge. The overheads for setting up a new premises are extensive and the business rates liability is a key consideration for entrepreneurs. If small and medium sized businesses no longer receive small business rate relief they may decide to delay investment or not invest in setting up a store in a new location, especially when they are looking at smaller format rural locations where small business rate relief would be applied.

If the Welsh Government proceeds with this per business premises threshold we urge the Welsh Government to look at alternative mechanisms for incentivising investment. For example, removing plant and machinery relevant to retail premises from the rating list (CCTV, pallet racking and air conditioning units), exempting significant investment in properties for a set time period and measures recently agreed to by the Scottish Government committing to introducing a growth accelerator⁷.

Q5. Are there any types of business you feel should be excluded from the new scheme and, if so, why?

We believe that the Welsh Government should look carefully at how a change in the relief system for multi-site operating stores would impact rural shops. 65% of convenience stores in Wales operate in rural locations and 57% of store have no other retail services close by to them⁸. We want to ensure that rural stores, whether independently or centrally managed, continue to benefit from the relief so there is no risk of lost services to rural communities.

We believe free to use ATMs should be exempted from rates liability in recognition of their role as ‘high street enablers’ by providing access to cash and encouraging consumer spending in businesses on high streets and local parades. 49% of convenience stores in Wales host a free-to-use ATM, but the associated rates bills are now undermining the commercial viability of hosting this service⁹.

⁵ ACS Local Shop Report 2017

⁶ ACS Investment Tracker August 2016 – May 2017

⁷ Barclay Review, Scottish Government 2017

⁸ ACS Rural Shop Report 2017

⁹ ACS Welsh Local Shop Report 2017

Through the wall ATMs have been liable for business rates since a ruling by the Valuation Office Agency in 2013. Although bills are given to the financial operator of an ATM, contracts between operators and retailers typically pass on rates bills to the retailer, averaging £2,800 per annum¹⁰. This is a significant cost for retailers who must pay these rates bills in addition to the rates on their shop and is a disincentive to supporting access to cash on local high streets or shopping parades.

A Localis survey of over 100 key local government stakeholders including chief executives, leaders and chief finance officers, finds that three quarters believe that local economic growth would suffer if access to cash was reduced in their area¹¹. 80% stated that access to cash is either important or very important to the economic vitality of their local area and 39% of over-65s are reliant on cash for all transactions¹². The withdrawal of bank branches from many local areas is also restricting access to cash, with 16% of branches closed nationwide from 2015 to 2017¹³.

Q7. If the Welsh Government released resources from the current scheme to provide additional support to eligible small businesses under the new scheme, based on the options described in paragraph 4.24, how should these resources be reinvested to support small businesses more effectively?

We welcome that the Welsh Government is investing in expanding the small business rate relief scheme to lift more businesses out of paying rates. Convenience store rateable values differ significantly depending on the size and location of the store, making it challenging to recommend a single option that will deliver benefits to all convenience stores.

65% of convenience stores in Wales are rural and 94% of independent retailers in Wales have stores below 2,000 square feet, meaning lifting the lower threshold for smallest business benefits the most retailers¹⁴. However, given that the funding for this extension has come from a cut to multiple retailer premises, which tend to be larger and therefore more expensive, the revised system also needs to make up for the shortfall.

We therefore believe that the Welsh Government should consider Option 3, which raises the lower threshold to £8,000 rateable value and the upper threshold to £13,000 rateable value. While this may have negative impact on the taper between the revised small business rate relief thresholds, overall it supports the smallest business that need the most support and small businesses at the upper small business rate threshold that have seen an increase in their rateable value due to the 2017 revaluation.

Q10. We are seeking views on removing the enhanced relief for retail premises with a rateable value between £10,501 and £11,000.

We acknowledge that the retail rate relief scheme in its current form does not support a large volume of retailers or deduct a significant amount. However, we urge the Welsh Government to not abandon the principle of a specific retail relief scheme. Retail is one of the largest employers in the Welsh economy, in the convenience sector alone there are 25,000 people employed.

¹⁰ CVS

¹¹ Localis report – [Is Cash King? Examining the importance of cash for local economies and communities](#). May 2016

¹² Localis report – [Is Cash King? Examining the importance of cash for local economies and communities](#). May 2016

¹³ <http://www.which.co.uk/news/2017/04/mapped-the-482-bank-branches-closing-in-2017/>

¹⁴ ACS Welsh Local Shop Report 2017

The retail sector is also experiencing a great deal of change with the rise of online shopping and shopping habits becoming increasingly unstructured. The retail sector is also experiencing a significant increase in operating costs especially from the introduction of the national living wage that has resulted in the number of people employed in convenience sector declining by 9% in the last three years¹⁵. These factors suggest that the retail sector needs support to manage this change and maintain its presence in communities across Wales.

The Welsh Government has recognised the need to support high street retailers through its high street relief scheme. This scheme will be supporting many retailers that trade on high streets and local parades. The Welsh Government should look at reallocating funds from the retail rate relief scheme to expand the high street rate relief scheme. The Welsh Government could also consider issuing guidance to local authorities that clearly identifies retail premises trading on high streets and local parades as important beneficiaries of relief schemes.

Q15. We are seeking views on the possible introduction of time-limited support for certain ratepayers which is gradually withdrawn. What are the advantages and disadvantages of such an approach?

ACS is a strong advocate of targeted rate relief and we have frequently called on local authorities to use their powers under the Localism Act to issue discretionary business rates relief to enhance economic growth and the reoccupation of empty properties. Time limited support for certain employers could be useful for supporting start-up businesses or existing business to achieve business growth.

The disadvantage of time-limited reliefs is that they do not provide certainty for the business over a longer period. Retailers value small business rate relief and transitional relief because they can make financial projections in the long term about the costs of operating their business. The Welsh Government would have to think carefully about the time periods for the allocation of the reliefs and making sure the administration of time limited reliefs is light touch.

Time limited relief may not provide support to some businesses that have limited investment and growth potential. For example, in the convenience sector there is a small proportion of stores (16%) that only employ family members, most of which have stores below 1000 square feet¹⁶. These businesses are remarkably resilient because they keep their employment cost extremely low and they are likely to own the premises they trade from. These types of business would not benefit from a shift to time-limited reliefs that focused on new investments and incentivising investment.

Q16. The Welsh Government is seeking general views on providing support to businesses that support, or are working towards supporting, wider Welsh Government objectives and invites proposals for developing the scheme in future years.

Convenience store retailers provide value to the communities they serve and in many instances contribute to the Welsh Government's social, economic and environmental policy objectives set out in the consultation document¹⁷. ACS' Community Barometer 2017 report shows that consumers believe that Post Offices, Convenience Stores and Pharmacies have

¹⁵ ACS Local Shop Report 2015-17

¹⁶ ACS Welsh Local Shop Report 2017

¹⁷ Welsh Government Objectives; Social, Economic and Environmental (consultation document pg 19)

the positive impact on their communities¹⁸. The sector also provides a significant economic contribution by employing over 25,000 people and providing £309 million in gross value added to the Welsh economy¹⁹.

We are sceptical about the allocation of business rate relief based on the Government's objectives as this may favour certain businesses sectors and business models over others. For example, if business rate relief was allocated based on payment of the National Living Wage Foundation's living wage rate convenience retailers would not receive any relief as such a high wage rate would be unsustainable in most convenience sector and other service sector businesses. As a result of the introduction of the National Living Wage convenience retailers have cut back on paid staff hours and reduced employee headcounts²⁰. Therefore, an employee payment rate relief link would not support the operation of convenience stores in Wales.

The same would apply if the rate relief was based on volume of employment or the ability to contribute to decarbonisation targets. As small stores, we would naturally not be able to employ as many people or have the same positive environmental impact as large stores. To account for value added by convenience stores, and other businesses, to employment in the economy or environmental targets would require some form of benchmarking mechanism accounting for the size of premises, business model and sector. This would add complexity to an already complex tax system and undoubtedly increase the caseload of the appeals system.

For further information on this policy submission please contact Steve Dowling, ACS Public Affairs Executive; steve.dowling@Acs.org.uk or call 01252 515001.

¹⁸ ACS Community Barometer 2017

¹⁹ ACS Welsh Local Shop Report 2017

²⁰ ACS National Living Wage Submission 2017

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