ACS Submission: Business Rates Retention Reform

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the Ministry of Housing, Communities and Local Government consultation on implementing 75% business rates retention ahead of the 2020 reset. ACS represents 33,500 local shops and petrol forecourts 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.

We welcomed the Government's commitment to additional business rates retention in the Industrial Strategy. The move towards 75% retention in 2020 must work to the benefit of business ratepayers as well as local government. Changes to the system should encourage local authorities to adopt innovative approaches to local economic development, to promote business investment and growth from convenience stores for the benefit of local communities.

The business rates retention system should be designed to maximise incentives for local authorities to grow their rates income at all stages of a reset period. We therefore believe a phased approach to resets merits further consideration and do not support the proposed move to three-yearly resets, which would reduce incentives for little benefit. Linked to the aim for business rates retention to promote bespoke approaches to local economic development, MHCLG should explore how to encourage local authorities to make better use of discretionary relief powers to support high streets and protect the provision of services valued by local people.

We are concerned that business rates retention provides a perverse incentive for local authorities to prioritise business support to larger businesses. Small Business Rate Relief means local authorities will yield minimal revenue growth from small businesses and convenience stores, which could lead to an unintended consequence of large format planning developments being approved that direct trade away from high streets. Additional protections must be developed to ensure this does not happen. MHCLG should consider how business rates retention can incentivise local authorities to evenly support growth from all sizes of business.

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

Chapter 2 - The balance of risk and reward

ACS has raised concerns in previous consultation responses about how business rates retention could have unintended consequences on the planning system. Business rates retention must ensure local authorities work to grow their small business base despite the limited additional revenue they will gain from its growth.

Business rates retention is rewarding local authorities by allowing them to retain revenue growth. However, Small Business Rate Relief means that premises under £12,000 RV do not pay business rates and those between £12,000 - £15,000 RV pay significantly reduced rates. This means that local authorities will gain little revenue growth from supporting the smallest businesses in their area that benefit from relief schemes.

This creates a perverse incentive for local authorities to focus on stimulating business rate revenue growth from larger businesses. Local authorities could be motivated to accept planning applications that deliver higher business rate yields but direct trade away from valued local high streets. This practice would help local authorities to fund local services but would be counter-intuitive to supporting local needs in the communities where people live and work.

While we acknowledge that local authorities use the tools of the planning system to carefully shape their local areas, financially-stretched local authorities could become susceptible to accepting developments based on financial reasons. This must be avoided at a time when vacancy rates are rising again and high streets are adapting to rapidly changing consumer demands[1].

The Government should therefore consider how local authorities can be incentivised to grow their small business footprint despite receiving limited additional revenue from their development. This could include monitoring the type, size and location of business premises local authorities are gaining additional rates income from.

Resetting business rates baselines

Question 1: Do you prefer a partial reset, a phased reset or a combination of the two?

Question 2: Please comment on why you think a partial/ phased reset is more desirable.

One of the key objectives of business rates retention is to increase the stake of local government in the performance of their local businesses, to encourage local authorities to think innovatively to support business growth. To best achieve this objective, changes in business rates income should result in the same changes in local authority funding regardless of when that growth or loss occurs within a reset period.

This approach should provide simplicity and certainty for local authorities, ensuring the financial incentives for them to promote local business encourages strategic planning. A phased reset merits further consideration to ensure an even incentive and risk and reward for local authorities.

[1] Retail Vacancy Rates Rise Drapers Online. 11 February 2019.

Question 3: What is the optimal time period for your preferred reset type?

ACS' submission to *100% Business Rates Retention: Further Consultation on the Design of the Reformed System* detailed our support for ten-year reset periods to maximise the growth incentive for local authorities between resets and strengthen the immediate rewards for local authorities that innovate locally to raise revenue[2]. A ten-year reset would also align with the timeframes set out in the National Planning Policy Framework for assessing the economic impact of new retail developments.

We acknowledge that other consultees supported a five-year reset period but welcome the Government's restatement that the reset should provide a strong incentive for growth. Shortening the reset period to three years to align with business rates revaluations would soften incentives for growth. Revaluations are designed to be fiscally neutral with rateable values aligned to property values, meaning the impact on rates retention would be marginal on tariffs and top-ups for local authority funding. We do not observe any substantial reason to reduce the reset period to three years based on changes to business rates revaluations.

The Levy

Question 5: Do you agree with this approach to the reform of the levy?

Local government stakeholders are best placed to recommend the most appropriate level where growth in business rates income becomes 'extraordinary'. However, this level should be set at a rate which is highly unlikely to penalise local authorities that have benefitted from significant growth in rates income as a result of their local economic strategies. The levy should not become a restrictive factor for local authorities when considering the potential of business rates retention to grow their funding.

Tier Splits

Question 7: What should the fall-back position be for the national tier split between counties and districts, should these authorities be unable to reach an agreement?

Question 8: Should a two-tier area be able to set their tier splits locally?

Tier splits should be set at a rate which incentivises lower-tier authorities to grow their revenue. These lower-tier authorities (e.g. district councils) have an in-depth knowledge of their constituent town centres. They are responsible for economic development, parking, licensing and other policy areas that are key levers for town centre performance. It is right that they should therefore carry the most risk and reward from business rates retention.

MHCLG officials should actively explore how to encourage local authorities to make better use of policy powers gained under the Localism Act 2011. Specifically, the Localism Act provided powers to allocate discretionary rate relief to any local business, subject to state aid limits. This relief is 50% funded by central Government but the latest available figures show that only 39 out of 326 local authorities have utilised discretionary relief to support businesses and drive economic growth[3].

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[2] 100% Business Rates Retention: Further Consultation on the Design of the Reformed System ACS Submission. February 2017.

[3] Devolution will not solve business rates burden groups warn Treasury Telegraph. 24 October 2015.

These local discount powers should be used as a meaningful, flexible and effective mechanism through which to provide targeted discounts to local businesses and tailor taxation to local areas. For example, local discounts focused on specific locations that require redevelopment would attract appropriate businesses. The wider use of local discount powers should be supported to help local authorities to tailor growth to economic strategies and support greater provision of the services desired by communities.

Chapter 3 - Simplifying the system and reducing volatility

Appeals and other valuation change

Question 12: Do you agree that the use of a proxy provides an appropriate mechanism to calculate the compensation due to local authorities to losses resulting from valuation change?

We support the Government centralising the financial risk associated with provisions to cover successful appeals. This will provide local authorities with more certainty about their business rates yield and free up funds to invest in local services.

The business rates appeals system must continue to be managed centrally, to ensure a coordinated approach nationally for all retailers and prevent local authorities from influencing appeal outcomes.

Annex A

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.

ACS | the voice of local shops

WHO WE REPRESENT

INDEPENDENT RETAILERS

ACS represents over 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 12,000 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

In 2018, the total value of sales in the convenience sector was £39.1bn.

The average spend in a typical convenience store transaction is £6.50.

There are 46,262 convenience stores in mainland UK. 72% of stores are operated by independent retailers, either unaffiliated or as part of a symbol group.

The convenience sector provides flexible employment for around 365,000 people.

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

24% of shop owners work more than 70 hours per week, while 19% take no holiday throughout the year.

70% 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.

81% of independent/symbol retailers have engaged in some form of community activity over the last year.

Between August 2017 and May 2018, the convenience sector invested over £814m 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 over 2,400 independent, symbol and forecourt retailers combined with responses from multiple businesses representing 7,669 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