



ACS Submission: Subsidy Control: Designing a New Approach for the UK

ACS (the Association of Convenience Stores) welcomes the opportunity to respond to the Department for Business, Energy and Industrial Strategy consultation on establishing a bespoke UK-wide subsidy control regime. 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.

- Convenience stores operate at the heart of local communities, many trading as isolated stores or within neighbourhood locations providing the only access to groceries and a range of essential services locally. The public ranks convenience stores as the business type with the most positive impact on local areas¹.
- The main impact of current state aid rules is to restrict access to business rates relief for larger convenience store operators. Convenience retailers have also engaged with state aid rules during the pandemic to access the Retail, Hospitality and Leisure Grant Fund and Coronavirus Business Interruption Loan Schemes.
- The threshold for small amounts of financial assistance should remain at 325,000 SDR and rise annually with inflation. Subsidies under this limit should be exempted from domestic regime obligations. Administrative requirements should be restricted to sharing data to comply with WTO obligations.
- Convenience store subsidies above a 325,000 SDR threshold should be designated 'low risk' to remove unnecessary assessments against the subsidy control principles. Retailers do not export to affect the international market and competition is hyperlocal, so subsidies do not affect competition in the internal market. This designation would provide maximum certainty and enable streamlined bureaucratic processes. The provision of 'low risk' subsidies should fundamentally not be restricted.
- The independent body overseeing the new subsidy control regime should produce guidance to help retailers understand the new regime, rights and responsibilities.

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

¹ ACS Local Shop Report 2020

Subsidy Control Objectives

Q1: What type of subsidies are beneficial to the UK economy?

During the pandemic, the Retail, Hospitality and Leisure Grant Fund, Coronavirus Business Interruption Loan Scheme and Coronavirus Large Business Interruption Loan Scheme were additional policies subject to subsidy control restrictions. The Small Business Grant Fund was limited to one grant below the de minimis limit so should not be refused on subsidy control grounds but some councils requested recipients complete declarations.

Business rates relief is the main subsidy regime for the convenience sector. Business rates relief is invaluable for enabling convenience retailers to provide groceries and essential services, within often otherwise isolated communities. This includes bill payment services (available in 76% of stores), click and collect services (27%) and Post Offices (22%)². The closure of a rural shop would on average require customers to travel 3.3 miles to access these essentials³. Business rates relief is therefore important for delivering social equity outcomes, externalities, and self-sufficient local economies.

The existing state aid regime limits the benefits of business rates relief policies. Multiple convenience retailers which operate regionally or nationally are unable to claim for most stores due to existing de minimis limits. This restricts business rates relief as a policy lever to support growth and investment and requires larger businesses within the sector to conduct complex audits of subsidy claims to ensure compliance.

Q3: Do you agree with the Government's objectives for a future subsidy control regime? Are there any other objectives that the Government should consider?

Yes. We agree that a new subsidy control regime should actively contribute towards socially desirable outcomes across all regions of the UK. Local shops have significant potential to contribute towards the levelling-up agenda by boosting access to services and jobs locally. We believe public authorities' policy making should utilise this potential, for example via discretionary relief and LEP support schemes.

Subsidy via business rates relief for convenience stores does deliver positive social and economic objectives, but also helps to maintain a competitive and dynamic market economy. We understand the objective for a future regime to protect the UK internal market. There is no risk to the UK internal market from grocery retail subsidies (see Q10).

Subsidy Definition

Q6: Do you agree with the four key characteristics used to describe a support measure that would be considered a subsidy? If not, why?

Yes.

² ACS Local Shop Report 2020

³ ACS Rural Shop Report 2021

Subsidy Control Principles

Q10: Do you agree with the inclusion of an additional principle focused on protecting the UK internal market by minimising the distortive effects on competition?

We do not oppose a principle on minimising distortive effects on competition. Convenience stores operate the ultimate hyperlocal business model with 51% of customers travelling less than one-quarter of a mile to store⁴. This highly localised customer base means a subsidy to a local shop will not adversely impact another local shop or grocery business across national borders. This underlines how low-risk subsidies to convenience stores are for effective competition and adherence with international commitments (see Q27).

Q12: What level of guidance or information would be helpful for public authorities to assist with their compliance with the principles?

The subsidy control system should prioritise certainty to avoid disincentivising authorities from issuing subsidies where appropriate. Subsidy control rules in place between the end of the transition period and new regime also require better communication, via new guidance, rather than an amendment to guidance on affected Covid-19 schemes only.

Exemptions

Q13: Should the threshold for the exemption for small amounts of financial assistance to a single recipient replicate the threshold in the UK-EU Trade and Cooperation Agreement at 325,000 Special Drawing Rights over a three-year period? If not, what lower threshold would you suggest and why?

Yes. The existing threshold should be maintained.

Q14: If you consider the small amounts of financial assistance threshold should replicate the UK-EU Trade and Cooperation Agreement, should it be fixed at an amount of pound sterling (GBP)?

No. The threshold should track with inflation on an annual basis to ensure the allowance is fiscally neutral.

Q15: Do you agree that subsidies under the proposed small amounts of financial assistance threshold be exempt from all obligations under the domestic regime, except for the WTO prohibitions? If not, why?

Yes. This would reduce administrative requirements for recipients.

Q16: Should relief for exceptional occurrences be exempted from obligations regarding principles, prohibitions and conditions in the subsidy control regime?

Yes. This would most affect convenience retailers when affected by unavoidable flooding and other extraordinary circumstances which should lead to hardship relief if another scheme is not provided. Exemptions from these obligations would ensure multi-site retailers who otherwise meet the subsidy control threshold are supported to continue trading as a business.

⁴ ACS Local Shop Report 2020

Q17: Should subsidies granted temporarily to address a national or global economic emergency be exempted from the rules on prohibited subsidies and any additional rules set out below?

Yes.

Protecting the UK Internal Market

Q27: Could additional measures help ensure that lower risk subsidies are able to proceed with maximum legal certainty and minimum bureaucracy? What should be included within the definition of 'low-risk' subsidies?

We support an exemption for smaller subsidies from the subsidy control principles, which would acknowledge the very low risk these pose to distorting markets and investments. However, the system for subsidies above the threshold for small amounts of financial assistance must also recognise when they are very low risk. These subsidies should also be subject to minimal bureaucracy.

Subsidies to convenience stores should be automatically considered 'low-risk'. Subsidy controls should not unduly affect these retailers because they do not operate export-based business models and so subsidies cannot distort international competition. The hyperlocal customer base for convenience stores also discounts subsidies from affecting competition within the internal market at the margins of national borders. This localised business model also discounts the potentially distortive effects of 'subsidy bidding wars'.

Subsidies to grocery retailers do not have any material impact on competition and should be explicitly exempted from subsidy control rules. This consultation process should not leave capacity for lengthy processes within the courts to decide on the materiality of awards, which would introduce uncertainty for councils and therefore discourage awards. 'Low-risk' subsidies should have reduced administrative requirements, which match WTO obligations only, to share their form, purpose, duration and value.

Oversight & Enforcement

Q36: What should the functions of the independent body be?

The Competition and Markets Authority could become an independent body for overseeing the domestic subsidy control regime.

The independent body should be responsible for information and enquiries. This could include explaining the regulatory framework and producing guidance for small businesses to boost awareness and understanding. The body could also scrutinise and report on the operation and effectiveness of the new regime. The body's role in terms of checking subsidy compliance should be irrelevant for convenience stores if designated as 'low risk' subsidy recipients.

Q38: What role, if any, should the independent body play in advising public authorities and reviewing subsidies before they have been awarded?

An advisory role for the independent body on subsidy policy development should be voluntary if introduced. A non-binding advice function could instil confidence amongst public authorities to take advantage of the newfound policy flexibility provided by a new subsidy control regime.

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.



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



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.



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.



The convenience sector provides flexible employment for around 412,000 people.

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



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.



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.



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