

## The Independent Retailers' Confederation Submission to

### The Budget

March 2009

#### Introduction

1. The Independent Retailers' Confederation (IRC) represents independent retail groups from a variety of sectors, providing a voice for retailers operating in an increasingly competitive marketplace. These shops and stalls are at the heart of both rural and inner urban life and through their presence on the UK's high streets form an essential part of local communities, providing employment and meeting places as well as offering consumers choice, quality and service. Acting as a representative body for our member associations, the IRC works to create a high profile for small and independent retailers within both Government and Parliament.
2. The IRC represents over 100,000 independent retailers across the UK and the membership is united in seeking the creation of a level playing field for specialist retailers. Additional information on the IRC's key campaign focuses along with information on the IRC's members can be found at the foot of this document.
3. The IRC believes that independent retailers provide added value which goes much wider than the purely economic. For example, small local shops allow many people to shop locally on foot, reducing carbon emissions created by driving to distant out-of-town stores; the services they provide are crucial to their local communities, often allowing the elderly to remain in their own homes rather than having to move to residential accommodation. Small, independent retailers are of crucial importance to several different Government departmental agendas, but the sector can be afforded insufficient significance by policymakers.

#### Budget Submission

4. The IRC welcomes the opportunity to submit a written paper to HM Treasury ahead of the 2009 Budget. The IRC brings together generations of experience across the broad spectrum of independent retail and its members are keen to assist Government by providing their knowledge and expertise at a challenging time for the UK economy.
5. Independent retailers demonstrate significant flexibility and ability to survive short-term economic downturns. The IRC believes that this is vital to ensuring the vibrancy and long-term diversity of the UK economy, particularly at a time of negative economic growth and rising business overhead costs as experienced in the last year.
6. Some portions of the independent retail sector continue to perform well. For example, in the retail markets sector, anecdotal evidence suggests that in some areas – food in particular – market traders appear to be experiencing an improvement in trading.
7. However, independent retailers that have maintained sales and market share have often done so by cutting prices and profit margins. This is having a direct impact on employment – staff hours are being cut back – but also means that their long term survival is affected.

8. While the independent retail sector is demonstrating its resilience in the face of difficult economic circumstances, it is clear that the coming year will be incredibly challenging for many retailers. The IRC has several causes for concern that it wishes to highlight in advance of the Budget.
9. This submission presents the IRC's considered position on how the following issues are currently affecting and are likely to continue to affect independent retailers in the coming months:
  - Access to credit from banks and suppliers;
  - The VAT reduction and proposed increase in employers' National Insurance (NI) contributions announced in the 2008 Pre-Budget Report;
  - Business rates, specifically the increase in Rates scheduled for April 2009, the Rate revaluation planned for 2010 and the Business Rate Supplements Bill
  - The VAT registration threshold.
10. Taken together, these points set out the environment in which independent retailers are operating, and the IRC looks forward to working with HM Treasury wherever possible in order to facilitate the conditions in which independent retailers may flourish.

### ***Access to Credit for Independent Retailers***

#### I. Credit from Banks

11. Feedback from the IRC's membership suggests a wide-scale reduction in the flexibility of banking support over the past year with banks introducing more stringent lending criteria and evidence of a reduction in overdraft facilities for independent retailers. Banks have introduced and continue to maintain restrictions on lending at a time when many retailers are in most need of credit. For example, many retailers have experienced increases in overdraft rates that have been introduced with very little or no warning by their bank. The speed of change in banks' behaviour towards small business customers over the past year cannot be realistically accommodated by many independent retailers.
12. The IRC recognises that the Government and the Bank of England have taken a range of measures aimed at strengthening the UK banking sector and getting banks to resume lending to businesses, such as the Bank Recapitalisation Scheme, the Working Capital Scheme and the Enterprise Finance Guarantee Scheme. We are concerned, however, that the intended effects of these schemes are not being felt by independent retailers on the ground.
13. Furthermore, the IRC has evidence that even businesses that are performing well are less able to access borrowing to support their continued growth. This is likely due to a number of factors: general policy and prioritisation of debt reduction vs. investment; a lack of skilled small business bankers to fully assess risk and upside of these investment opportunities; a more prudent assessment of the returns to be gained from small business vs. the risk and alternative options to re-engage with the better performing large businesses, in what is now an increasingly competitive market, with a number of the players seriously wounded.
14. Focus on kick-starting lending from banks is the clear pressing priority for Government. However for many businesses the short term risk is not failure to secure lending from the bank but from the key suppliers they rely on.

#### II. Credit from Suppliers

15. The importance of credit to the functioning of a retail business extends beyond the relationship with banks and other lenders. Supplier credit is a fundamental part of the infrastructure that supports independent retailers. Retailers have credit relationships with suppliers and wholesalers that provide the products that they put on their shelves.
16. While the squeeze on credit from suppliers is not universal, a number of recent retail business failures have been linked to a closing down of credit arrangements with suppliers. Furthermore, it is clear that suppliers that are themselves highly leveraged are finding it harder to maintain previous credit arrangements with their customers.
17. The IRC sees a critical factor to be a dramatically altered approach to risk, particularly by credit insurers. The shift to extremely risk-averse approach to the lending puts pressure on suppliers to tighten terms and close down relationships. We have evidence of some hardening in credit insurance facilities for exactly the same reasons as banks, a more risk adverse stance is being taken, which can in turn lead to reductions in insured credit limits that then impact upon payment terms. The most significant impact is the insurers being more stringent regarding insurance terms and the suppliers waking up to the reporting and supply requirements, now that risk exposure is a greater reality.
18. The IRC believes that Government should help this process by moving to change attitudes to credit insurance, possibly by underwriting access to credit from suppliers, which is likely to be the most direct way of supporting businesses in the day-to-day of surviving the economic downturn.

### ***Measures announced in the 2008 Pre-Budget Report***

#### **I. VAT Reduction**

19. The IRC recognises the dire economic circumstances that the UK economy has faced over the past year. In such a climate it is necessary for governments and central banks to take bold and decisive action to cause a resumption in consumer spending. We recognise that the reduction in VAT from 17.5 per cent to 15 per cent announced in the 2008 Pre-Budget Report was an attempt by the Government to stimulate the UK economy. However, we have a number of significant concerns regarding this policy, which are outlined below.
20. The change to VAT announced in the PBR gave retailers only one week to make the necessary changes to their business systems and displays. The IRC judges that it will cost independent retailers at least £300m to implement the changes in VAT and as a result some retailers have decided not to reduce prices to reflect the reduction in VAT.
21. The IRC's members have seen no noticeable impact upon retail sales related to the reduction of VAT to date. The announcement was made at a time when the high street was already providing wide scale price reductions and the reduction announced in the PBR was therefore ineffectual in such a marketplace.
22. The ongoing impact of the reduction is unclear. Over 3 months on many retailers have still not re-priced goods and significant uncertainty remains as to what level VAT will increase to at the end of 2009.
23. It should also be born in mind that in some cases re-pricing for the VAT reduction has counterbalanced in recent months by a weakening of the £ and the resulting increases in the cost of imports. For example, profits in the specialist cycle retailers sector have been negatively affected with the fall in the value of sterling beginning to reach the market, which is particularly dependent upon imports.

## II. Increase in employers' National Insurance contributions

24. The PBR stated that the Government intends to increase the employee, employer and self-employed rates of National Insurance (NI) contributions by 0.5 per cent in April 2011, "when economic growth is forecast to be above trend rates and real incomes are growing strongly".
25. The IRC considers this measure to effectively be an increase in the cost of employing staff. Worryingly, a recent Oxford Economics study has found that the increase will lead to 91,000 fewer UK jobs in 2012 and 84,000 fewer in 2013.
26. The IRC is further concerned that a worsening of the economic situation following this announcement means that the economic forecasts on which the increase predicated may no longer hold. As a result, this measure may be implemented at a critical time for the independent retail sector and may significantly damage our members' businesses.
27. The IRC is therefore calling for this policy to be delayed until economic growth resumes to the level on which the announcement was based.

### ***Business Rates***

28. The IRC has particular concerns about several planned changes to Business Rates due to come into effect in the next two years. These changes will have a particularly damaging effect on independent retailers during the current period of economic uncertainty.
29. Specifically, we have concerns regarding the increase in Business Rates scheduled for April 2009; the Business Rate revaluation planned for 2010; and the Business Rate Supplements Bill.

#### I. Business Rates Increase, April 2009

30. Business Rates will increase by 5 per cent in April 2009. This figure is based on Retail Price Index (RPI) levels in September 2008, which have subsequently fallen to 3 per cent and are predicted to fall even further in the coming months as fuel prices fall and consumer spending continues to slow.
31. The IRC is calling for the Government to cancel the annual RPI increase in Business Rates for 2009. The IRC estimates that this would save the retail industry around £300m; the planned 5 per cent increase in April 2009 would cost businesses around £1.2bn.

#### II. Business Rates Revaluation, 2010

32. Every five years the Valuation Office Agency conducts a reassessment of the rateable values of all business and non-domestic property in England and Wales, to ensure that the values reflect changes that have taken place in the property market since the last valuation. The last revaluation took place in 2005 based upon the property market in April 2003 and the next will take effect in 2010 based on 1 April 2008. As it stands, the revaluation of business rates will reflect property costs at their peak in April 2008, not taking into account the sharp falls that have subsequently taken place.
33. The IRC is calling for the Government to postpone the Business Rates revaluation, which is likely to hinder independent retailers at a time when the Government forecasts the economy will be starting to recover.

#### III. Business Rate Supplements Bill

34. The Business Rate Supplements Bill, introduced by the Government in December 2008, will give Local Authorities the powers to raise additional revenue from businesses in their area by increasing business rates by up to 5 per cent. The IRC believes that Supplementary Business Rates will result in a major potential increase in the tax burden on retailers and remains unconvinced that the proposed investment in local infrastructure funded by the rates will be of benefit to independent retailers.
35. The IRC is calling on Government to delay the passage of the Bill until economic conditions improve and economic growth resumes.

#### IV. Business Rate Case Studies

36. The IRC has asked its members to calculate what would be the real impact of these proposed rates increases upon their businesses. Some examples of these calculations are provided below. Further information about these retailers and further examples can be provided on request.

	Shop A	Shop B	Shop C	Shop D	Shop E	Shop F
Annual rate costs	£5,174.00	£30,030	£11,080	£24,260	£8,200	£14,440
+ 5%	£5,432.70	£31,531.50	£11,634	£25,473	£8,610	£15,162.00
+ 15.9 % or 14.6% (wales)	£6,296.50	£36,545.01	£13,483.81	£29,523.21	£9,978.99	£17,572.76
+ 2%	£6,422.43	£37,275.91	£13,753.48	£30,113.67	£10,178.57	£17,924.21
Difference	<b>£1,248.43</b>	<b>£7,245.91</b>	<b>£2,673.48</b>	<b>£5,853.67</b>	<b>£1,978.57</b>	<b>£3,484.21</b>

	Shop G	Shop H	Shop I	Shop J	Shop K	Shop L
Annual rate costs	£38,959.80	£20,240	£812.95	£656,922	£5312	£4,000
+ 5%	£40,907.79	£21,252	£853.60	£689,768	£5577	£4,200
+ 15.9 % or 14.6% (wales)	£47,412.13	£24,631.07	£989.32	£799,441	£6023	£4,867.80
+ 2%	£48,360.37	£25,123.69	£1009.11	£815,430	£6143	£4,965.16
Difference	<b>£9,400.57</b>	<b>£4,883.69</b>	<b>£196.16</b>	<b>£158,508</b>	<b>£831</b>	<b>£965.16</b>

#### ***VAT Registration Threshold***

37. The IRC wishes to draw attention to the HMRC VAT Registration Threshold, which is currently set at £67,000 per annum. Many small retailers are discouraged from registering for VAT because of the administrative burden which falls disproportionately hard upon small businesses. The IRC believes that threshold can create a barrier to expansion for those businesses who do not wish to incur the additional administrative burden that VAT registration would bring.
38. Accordingly, the IRC recommends that the Government reviews and increases this threshold. Removing such barriers to business expansion will be vital as the UK begins its recovery from the current economic downturn.

## Conclusion

39. The IRC welcomes the opportunity to submit a written paper to HM Treasury ahead of the 2009 Budget. Independent retailers offer flexibility to the UK economy and provide essential and unique services to their local communities. The value of smaller retailers to the economy, employment and local communities should not be underestimated.
40. This paper has highlighted the importance of access to credit from banks and suppliers, the effects of the recent VAT reduction and proposed increase in employers' NI contributions, upcoming changes to business rates and the HMRC VAT Registration Threshold to the independent retail sector.
41. The cumulative impact of these issues is that many independent retailers are being hit disproportionately hard at what is clearly a challenging time for the entire retail sector, and this paper has outlined a number of actions that the IRC believes the Government can take to improve the situation for independent retail.
42. Specifically, this paper has called for Government to:
  - Continue efforts to ensure the resumption of bank lending to businesses;
  - Help change attitudes to suppliers' credit insurance, possibly by underwriting access to credit from suppliers;
  - Delay the planned increase in employers' National Insurance contributions until the economic growth resumes;
  - Cancel the increase in business rates due to come into effect on 1<sup>st</sup> April 2009;
  - Postpone the Business Rates Revaluation planned for 2010;
  - Delay the passage of the Business Rate Supplements Bill until economic conditions improve and economic growth resumes;
  - Review and increase the VAT Registration Threshold.
43. It is essential that Government not only engages with smaller retailers and business owners on these issues, but that it actively listens to what this industry – essential to UK plc – has to say. The IRC would be happy to provide further oral or written evidence to HM Treasury as required.

## Additional Information

The IRC works to highlight the importance of the following issues to the retail sector:

**Planning:** Planning developments can leave independent retailers at a severe disadvantage especially where there is a lack of understanding about the needs of smaller retailers. The IRC would like to see clarity in planning policy and decisions by Government which will protect the role smaller retailers play in delivering a vibrant community.

**Skills:** The retail sector is a priority in terms of training needs. However, existing support can be fragmented. The IRC believes that greater interaction between skills support and the independent retail sector could be vital in addressing the gaps in the current system.

**Regulation:** Legislation can cost independent retailers anything from under £100 to over £10,000 a year and the burden of red tape on smaller retailers is disproportionate compared to that of larger retailers. The IRC is working to raise awareness of the issues smaller retailers face from red tape, particularly from increasing employment law regulation.

**Crime:** Retail crime costs the sector around £2 billion per annum and can have a damaging effect on local communities. The IRC recognises the work that is being carried out to address this issue and supports Government led retail crime partnerships. Our members look forward to working with these partnerships to address the serious issue of retail crime.

## Membership

Membership of the IRC is made up of trade bodies from across the UK, and across retail sectors. Members of the Confederation include:

**ActSmart:** ActSmart is the essential resource for specialist retailers in the sports and leisure sectors. ActSmart is developing a network of partnerships which deliver business benefit, services and information to its community of specialist retailers.

**The Association of Convenience Stores:** ACS is the campaigning voice of over 33,000 local shops. The ACS supports its members through lobbying, advice on legislation and issues that affect retailers, and through learning and networking events.

**The Guild of Fine Food:** The GFF is the UK trade association for its 1,300 members who make or sell top quality local, regional and speciality food and drink.

**The National Federation of Meat and Food Traders:** The NFMFT is the trade body for butchers and meat traders throughout the UK.

**The National Federation of Retail Newsagents:** The NFRN is one of Europe's largest retail trade associations with over 18,000 independent news and convenience retailers in membership throughout England, Scotland, Wales, Northern Ireland and the Republic of Ireland.

**The National Market Traders Federation:** The NMTF represents market traders throughout the UK. With the IRC, it lobbies government through the All Party Parliamentary Markets Group, and holds regular talks with other organisations involved in the industry.

**The Pet Care Trust:** The Pet Care Trust is a national pet care education charity that promotes responsible pet ownership. The Trust has around 1,550 members, overwhelmingly small and medium enterprises including pet shops, groomers, kennels, catteries, manufacturers, wholesalers and colleges.

**The Rural Shops Alliance:** The RSA is an alliance of key suppliers, authorities and other organisations, working for and on behalf of independent village shops across the country

**The Scottish Federation of Meat Traders Associations:** The SFMTA is the representative body of butchers and meat traders across Scotland.

**E- Signed on behalf of Independent Retailers Confederation:**

A handwritten signature in black ink, appearing to read 'K Parsons', is written over a light blue horizontal line.

Mr Kenneth Parsons (Chair of the IRC and Chief Executive of the Rural Shops Alliance):

**Further information:**

Further information can be found at the IRC's website: [www.independent-retailers.co.uk](http://www.independent-retailers.co.uk).

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