

The Independent Retailers' Confederation Submission to The Pre-Budget Report October 2009

1. Introduction

- 1.1 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 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.
- 1.2 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 campaigns, along with information on the IRC's members, can be found at the end of this document.
- 1.3 The IRC believes that independent retailers provide 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 is often afforded insufficient significance by policymakers.

2. Pre-Budget Report Submission

- 2.1 The IRC welcomes the opportunity to submit a written paper to HM Treasury ahead of the 2009 Pre-Budget Report (PBR). 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.
- 2.2 Section A below sets out the climate in which small, independent retailers are currently operating, highlighting upcoming employment regulations that will impact upon the sector, the National Minimum Wage (NMW), business rates, and the upcoming impact of the Pensions Act 2008.
- 2.3 Section B outlines specific areas on which the IRC is calling for Government action in the 2009 PBR, including the planned increase in VAT on 31st December 2009, the Employers' Rate of National Insurance (NI) and the VAT Registration Threshold.

A. Current Retail Climate

- 2.4 Independent retailers demonstrate significant flexibility and ability to survive short-term economic downturns, but retailers are being tested by the prolonged and severe nature of the current recession. Whilst in general the food retail sector has been relatively resistant to the recession there has been a reduction in basket size and footfall and customers are cutting back on luxury items. The impact of the recession and the impacts that this will have on industry and employment in the next few years must be taken into account by Government as it sets out its economic plans for the coming year.
- 2.5 To give an idea of the impact of the recession upon the sector, 19,000 shops have closed from the high street this year, which includes 12,000 independent shops¹. A report from the British Retail Consortium (BRC)² indicates that one in twelve town centre shops are now empty. Furthermore, retailers entering administration are up 109% year-on-year and 48% quarter-on-quarter.³
- 2.6 Significant numbers of independent retailers are continuing to face the threat of closure, as rising costs combine with static or declining sales to hit viability. Electricity prices, in particular, represent an important cost, which has risen markedly over the past year. In this economic climate, there is little opportunity to build margin to cover such costs, and competition in the recession has been very intense.
- 2.7 The IRC believes the independent retail sector 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.

Employment

- 2.8 In March 2009 there were 73,000 fewer jobs in retail year-on-year, a reduction of 2.5% in 12 months⁴. This reflects some of the financial stresses that the retail sector has been under as well as the additional employment costs that have been added on to business.
- 2.9 Over the past year there have been several new regulatory costs that have hit the independent retail sector, which we believe must be taken into account by Government as it sets out its economic plans for the coming year. Examples of such changes include:
- **An additional four days annual leave have been given to employees this year**, raising the annual holiday entitlement to 28 days compared with 20 days in 2007.
 - **An increase in 1.2 per cent on NMW**. Whilst lower than any previous rise, this was higher than inflation and average wage growth, and came in at the same time as the four day increase in annual leave.
 - **Flexible working regulations, Train to Gain and the Working Time Directive** have all come into force this year.
- 2.10 These all add costs and take money off the bottom line of businesses. For many businesses in the current economic climate there is not the slack to absorb these additional costs and it means making cuts to ensure that employment costs remain the same.

National Minimum Wage

¹ The Local Data Company

² 21st Century High Streets - A new vision for our town centres

³ Insolvency Service

⁴ NOMIS

- 2.11 The IRC recently provided a submission to the Low Pay Commission for its consultation on the National Minimum Wage (NMW). In the submission, we recommended that given the continuing uncertainty over the economy there should be **no increase in NMW for 2010**. At the end of this point there should be a better understanding of the economic performance and so the rate for 2011 should be considered separately at this time.

Business Rates

- 2.12 The Government increased business rates in April 2009 by 5 percent, a figure based upon RPI at September 2008 levels, which had subsequently fallen to -1.6 per cent at time of entry-into-force. The change was therefore completely out of touch with the economic conditions at that time.
- 2.13 Whilst the Chancellor announced a deferral scheme to offset the 5 per cent increase, this was done in a very burdensome way, announced only on the day of the increase despite the fact that the business community, including the IRC, had been calling for action for many months in advance. The right to defer business rates therefore did not come into effect until July 2009 by which time businesses had been paying the 5 per cent increase for many months.

Pensions Act 2008

- 2.14 The Pensions Act 2008 means that from 2012, all eligible workers will be automatically enrolled into either a good quality workplace pension scheme or into the personal accounts scheme (unless they are already in such a scheme). This will mean the introduction of a minimum employer contribution of at least 3 per cent, as well as accompanying administrative burdens.

B. IRC Recommendations

Planned increase in VAT on 31st December 2009

- 2.15 The IRC recognises that the original reduction in VAT from 17.5 per cent to 15 per cent announced in the 2008 PBR was an attempt by the Government to stimulate the UK economy. At the time, we outlined a number of significant concerns regarding this policy, including the fact that the change announced gave retailers only one week to make the necessary changes to their business systems and displays.
- 2.16 The IRC is now concerned about the proposed timing of the reversion of value added tax (VAT) to the 17.5 per cent rate on 31st December 2009, which will fall on a Bank Holiday and at the busiest time of the year for retailers.
- 2.17 We believe that the rise will disrupt crucial Christmas trading, strain staff during that period and impose significant costs at a time when working capital is under strain. The planned increase is certain to lead to loss of profits for independent retailers as it proves impossible to adjust all retail prices to accommodate without taking action throughout the month of December.
- 2.18 We are concerned that the Government is showing a lack of understanding of the retail marketplace and the impact of this timing upon retailers and the number of people employed in retail.
- 2.19 **We are therefore calling for a four-week reprieve on the VAT increase to protect independent retailers during a critical trading period** so that businesses have a chance to handle the administrative changes without the added pressures of Christmas trading.

- 2.20 The British Retail Consortium has indicated that it will cost the retail sector around £90 million to implement the VAT cut to 15 per cent and will cost a similar amount to reintroduce the 17.5 per cent rate. This will impact directly upon businesses gross profit margins and returns.
- 2.21 We note that the Department for Business, Innovation and Skills issued a consultation on 23rd October on proposals to amend the Price Marking Order 2004 so that for up to 28 days after the VAT rate changes, retailers will be permitted to let consumers know by way of a general notice that a VAT adjustment will be made at the till. We support this proposal as an attempt to alleviate some of the burden of the change placed upon retailers. However, this will not impact upon those retailers without Electronic Point of Sale (EPOS), which we estimate to be the case with up to 75 per cent of independent retailers.

Employers' Rate of National Insurance

- 2.22 The 2008 PBR stated that the Government will 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".
- 2.23 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.
- 2.24 We believe that a worsening of the economic situation following the November 2008 announcement means that the economic forecasts on which the increase is 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.
- 2.25 **The IRC is therefore calling for this policy to be delayed until economic growth resumes to the level on which the announcement was based.**

VAT Registration Threshold

- 2.26 The IRC welcomed the Government's increase in the VAT registration threshold from £67,000 to £68,000 in Budget 2009. However, we were extremely disappointed that the scale of this increase was not larger.
- 2.27 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 the 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.
- 2.28 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.

3. Conclusion

- 3.1 The IRC welcomes the opportunity to submit a written paper to HM Treasury ahead of the 2009 PBR. Independent retailers offer flexibility to the UK economy and provide essential and unique services to their local communities. The value of smaller retailers should not be underestimated.

- 3.2 This submission has highlighted a number of issues setting out the economic and regulatory landscape in which the independent retail sector will be operating in the coming year, including upcoming employment regulations that will impact upon the sector, the National Minimum Wage (NMW), business rates, and the upcoming impact of the Pensions Act 2008.
- 3.3 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.
- 3.4 Specific measures that the IRC is now calling for are:
- **A four-week reprieve on the VAT increase to protect independent retailers during a critical trading period so that businesses have a chance to handle the administrative changes without the added pressures of Christmas trading.**
 - **The planned increase in the Employers' Rate of National Insurance to be delayed until economic growth resumes to the level on which the November 2008 announcement was based.**
 - **A review and increase of the VAT Registration Threshold.**
- 3.5 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.

E- Signed on behalf of Independent Retailers Confederation



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

Further information can be found at the IRC's website: www.independent-retailers.co.uk.

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Additional Information

The Independent Retailers' Confederation works to highlight the importance of the following issues to the retail sector:

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.

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.

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, and represents over 100,000 retailers across the UK. 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

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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.