

## **The Independent Retailers' Confederation Submission to**

### **The Pre-Budget Report**

**October 2008**

#### **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.

#### **Pre-Budget Report Submission**

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 IRC is concerned that the sector can be afforded insufficient significance by policymakers.
4. Accordingly, the IRC welcomes the opportunity to submit a written paper to HM Treasury ahead of the 2008 Pre-Budget Report. 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 what is a challenging time for the UK economy.
5. Independent retailers have demonstrated that they can adapt quickly to changing market conditions. They bring much-needed flexibility to the UK economy, particularly at a time of slowing economic growth and rising business costs as experienced in 2008. While independent retailers have shown their resilience in the face of difficult economic circumstances, the IRC has several causes for concern that it wishes to highlight in advance of the Pre-Budget Report.
6. Set out in this paper is the IRC's considered position on how the following issues are impacting upon independent retailers:
  - **Employment Policies:** including consideration of the burden of excessive red-tape, changes to paid leave, the National Minimum Wage and the Temporary (Agency) Workers Directive;

- **Business Rates and Tax:** looking specifically at Supplementary Business Rates, Corporation Tax and business rate relief;
  - **Planning Policy:** focusing upon the Community Infrastructure Levy and proposed changes to Planning Policy Statement 6;
  - **Crime:** including information on theft, violence, intimidation and vandalism experienced by retailers.
7. Taken together, these points set out the environment in which independent retailers will be operating in the coming year, and the IRC looks forward to working with HM Treasury wherever possible in order to facilitate the conditions in which independent retailers may flourish.

### **Employment Policies**

8. Employment legislation can cost independent retailers anything from under £100 to over £10,000 per annum. Whilst the IRC believes that the purpose of individual policies is often laudable, their implementation can be particularly burdensome and their effects disproportionate upon independent retailers compared to larger retailers that are likely to have additional resources to help administer new regulations.
9. The cumulative effect of the raft of regulations faced by the retail sector can be debilitating. In 2001 the Better Regulation Taskforce estimated that the average shopkeeper spends five days a month simply administering regulations and the IRC believes that this burden has subsequently increased.
10. The specific issues set out below are paid leave, the National Minimum Wage the Temporary (Agency) Workers Directive, but the IRC would be happy to assist Government in the drafting and implementation of any further relevant regulations in the coming year.
11. The issue of paid leave is of key importance to smaller retailers. Since 2007, an extra eight days paid holiday have been awarded. In real terms – even for those companies paying minimum wage – this can mean an average cost of up to around £400 per employee per annum. For example, for an average convenience store paying minimum wage recent changes to paid leave have meant the equivalent of an increase of 3.1 per cent in wage costs per annum. For those businesses that cannot afford these costs for every employee, it means the business owners working additional hours – sometimes up to 65 hours per week to cover staff at no extra pay for themselves.
12. Changes to maternity and paternity leave will increase administrative burdens on small businesses. For every person taking maternity leave small independent businesses have to recruit new employees and provide them with training. This has a very significant impact upon small businesses and in particular retail, which relies so heavily upon the quality of its customer-facing staff. This is an issue that is likely to become even more pronounced if the Government goes ahead with plans to extend paternity leave and pay.
13. The principle of the National Minimum Wage (NMW) was welcomed at first by the independent retail industry. The Government can be commended for the sensible manner in which the policy was originally implemented. However, the IRC is concerned about inflation busting annual increases by the Low Pay Commission. The IRC is in regular dialogue with the Low Pay Commission, and will continue to represent its concerns over above inflation increases in the NMW.
14. The IRC is concerned that following the October 2008 changes the NMW will have increased by roughly 33 per cent since its introduction in 1999. This is an increase with which

independent retailers are struggling to cope, adding to the difficult situation retailers are facing with current economic downturn. With pay rises for the public sector being set at below inflation rate levels, the IRC then cannot see how it is justifiable that the NMW continues to be set at above the inflation rate.

15. The Temporary (Agency) Workers Directive, which the Government announced its support for in May 2008, will create additional costs to small businesses as companies will be required have to pay for holiday pay and sick leave for non-permanent employees if they have been temping at the company for more than six weeks. While the use of temporary staff is not the norm for small independent retailers, this is becoming increasingly common as additional holiday cover is required.
16. The economic realities of independent retail make it increasingly difficult to take massive rises in fixed costs on board, such as the increases in costs that businesses will face from the regulatory changes outlined above. Staff costs are often borne entirely by business proprietors as the competitive pressures in the independent retail sector make it difficult for small stores to transfer increased costs to customers.

### ***Business Rates and Tax***

17. The IRC wishes to highlight the importance of a clear and simple business tax system that is essential for small, independent retailers. Small retailers often have no access to in-house specialist support, forcing them to either buy in expensive external resources or to spend valuable time attempting to comply with and administer regulations which they may not fully understand. The specific issues highlighted below are Supplementary Business Rates, Corporation Tax, and the uncertainty experienced around Capital Gains Tax following the 2007 Pre-Budget Report.
18. The Business Rates Supplement Bill, announced in the Government's Draft Legislative Programme in May 2008, proposes to give local authorities powers to raise additional revenue from businesses in their area. The IRC believes that these 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. The IRC believes that, at the very least, there should be a small business exemption from Supplementary Business Rates, and calls on Government, local authorities and retail groups to work together to achieve a mutually acceptable solution.
19. While the IRC agrees with the proposals in the Bill that the smallest businesses, under a £50,000 ratable value, should be exempt, it considers that this bar should be raised higher to take into account the borderline businesses at this level and the significant extra costs that Supplementary Business Rates may bring. Furthermore, the IRC is concerned about the prospect of the introduction of Supplementary Business Rates at a time when an economic downturn means that independent retailers are facing reduced footfall and declining sales figures.
20. The IRC believes that the increase in small firms rate of Corporation Tax from 20 to 21 per cent announced in the 2008 Budget at a time when the general rate was reduced has had a destructive impact on independent retailers across the UK and calls for the Government to re-examine this, particularly in light of the difficult economic circumstances that small businesses are currently facing.
21. Finally, the IRC wishes to highlight that the confusion surrounding Capital Gains Tax following the 2007 Pre-Budget report has had a significant negative impact upon independent retailers. The IRC calls on Government to ensure that the 2008 Pre-Budget Report includes

no such similar unnecessary burdens and uncertainty leading to the disruption of small firms' business planning for the coming year.

### **Planning**

22. Planning developments can leave independent retailers at a severe disadvantage especially where there is a lack of understanding from Government about the needs of local communities. The IRC would like to see greater action by the Government to not only legislate to protect smaller retailers, but to protect and prioritise the sustainability of the UK's towns and rural communities.
23. The IRC recently responded to the Department for Communities and Local Government's Consultation on changes to Planning Policy Statement 6. The IRC believes strongly that this policy will be weaker by removing the Need Test as proposed in the Consultation. The IRC judges that without need being considered an explicit criterion for assessing new retail development, future town centre investment will be threatened.
24. Notwithstanding these reservations, the IRC welcomes in principle the broadening of the proposed new Impact Assessment Framework, particularly the emphasis that is placed on consideration of the economic, social and environmental impacts of a development on town centres. The IRC cautions, however, that for this test to be effective Local Planning Authorities need to be given significantly improved, specific guidance as to how it should be applied.
25. In addition, the IRC is concerned about the Government's proposals for the Community Infrastructure Levy (CIL), which local authorities may be empowered to introduce from 2009 as a discretionary tool. The proposals state that CILs be levied on most developments, including both residential and commercial developments and has proposed that there be a *de minimis* threshold below which CILs will not be payable. The IRC is seeking clarification from Government as to what this level should be and believes that those businesses with floorspace under 280m<sup>sq</sup> should be exempted.

### **Crime**

26. Retail Crime includes robbery, burglary, violent attacks, threats, intimidation, abuse and vandalism. Retailers suffer exposure to threats, intimidation and abuse on a weekly basis. These crimes are not victimless; they affect employers and employees as well as customers, and can impact upon wider community cohesion. The fiscal impact of crime against business is often felt disproportionately hard by small, independent retailers, particularly in today's difficult economic circumstances.
27. Shop theft is a significant problem for smaller retailers. The IRC is concerned that the Government's Policing Green Paper published in July 2008 referred to shoplifting as a 'minor crime' given that statistics from the British Retail Consortium (BRC) show:
  - Over the last seven years, retailers have reported losses of over £1 billion due to customer theft, with an average of £150 million of theft being detected each year.
  - The latest recording of customer thefts stood at 3,958 per 100 outlets – the highest figure so far this decade, and the majority of customer theft is linked to funding alcohol or drug abuse.
28. The largest proportion of theft from retailers is committed by staff and the IRC believes that employment regulations should effectively empower retailers to deal with members of staff who are found to be committing theft.

29. Independent retailers provide vital services to their local communities, but employees of these businesses regularly face the threat of intimidation and violence. For example, shop workers often find themselves in the front line in implementing Government regulations on the selling of age-restricted products and need adequate protection and guidance to deal with such situations. Recent BRC figures suggest that:
- Physical violence against shop staff increased by 33 per cent to reach 32 incidents per 1,000 employees in the last recorded year (2005-6).
  - There are on average 107 threats of violence made against shop workers per 100 outlets every year.
  - Verbal abuse against shop staff has more than doubled since 2000, with incidents per 1,000 employees rising from seven to 15 in 2006. The average number of incidents per 1,000 employees remains high at 16 each year.
30. The IRC finds it unacceptable that vandalism against retail outlets can often be portrayed as an accepted overhead cost for retailers. In some areas it is becoming increasingly difficult for small businesses to obtain insurance to protect against recurring vandalism. The IRC believes that small shops need help and incentives to work in partnerships in order to invest wisely the limited resources they have for security equipment.
31. Largely as a result of the threat of crime in the sector, insurance premiums have dramatically increased in recent years. The Office of Fair Trading and Department for Work and Pensions have both carried out investigations into the insurance industry after it became apparent that many small businesses suffer from the effects of excessive insurance premiums. Many small shops find that insurance premiums are prohibitively high because of the crime risks to which they are exposed.

## Conclusion

32. The IRC welcomes the opportunity to submit a written paper to HM Treasury ahead of the 2008 Pre-Budget Report. 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.
33. This paper has highlighted the importance of employment policies, business rates and tax, planning policy and crime to businesses in the independent retail sector. The cumulative impact is that many independent retailers are being hit disproportionately hard, particularly at a time when a tough credit market is making small business cashflow all the more critical to their survival.
34. 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 if 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.

**Members Include:** ActSmart; Association of Convenience Stores; Guild of Fine Food; National Federation of Meat and Food Traders; National Federation of Retail Newsagents; National Market Traders Federation; Pet Care Trust; Rural Shops Alliance; Scottish Federation of Meat Traders

**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

35. 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:**

Mr Bob Farrand (Chair of the IRC and Guild of Fine Food Retailers):



**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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