

The Independent Retailers' Confederation Submission to

The Budget

March 2010

1. The Independent Retailers' Confederation

- 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. They provide employment and meeting places as well as offering consumers choice, quality and service.
- 1.2 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. 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. Small, independent retailers are of crucial importance to several different Government departmental agendas, but the sector is often afforded insufficient significance by policymakers.

2. Budget Submission

Introduction

- 2.1 The IRC welcomes the opportunity to submit a written paper to HM Treasury ahead of the 2010 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.
- 2.2 While the UK economy has recently returned to growth, this continues to be an extremely challenging period for the independent retail sector. While IRC members report improved sales in some sectors, this picture is by no means universal, and the prospect of a 'double dip' recession remains a possibility. The situation varies both between and within sectors, with some shops doing well and others facing a steep decline in sales. High streets in some towns have many empty units and where there is limited growth in sales, this is often at the expense of profit margins.

- 2.3 While many independent retailers have endured the recession, they nonetheless remain under intense pressure, and continue to face very challenging times.
- 2.4 The IRC wishes to highlight a number of points to the Government in advance of the Budget. Accordingly, 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:
- Lack of access to credit from banks;
 - Changes to VAT;
 - Employment costs resulting from planned increases in National Insurance Contributions and the National Minimum Wage;
 - The 2010 Business Rate revaluation.
- 2.5 Taken together, these points help 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 best possible conditions for independent retailers.

Access to credit by banks

- 2.6 IRC members continue to relay great concern at a restriction of support by banks in providing finance for small businesses. Members note in particular that lending criteria continues to be stringent, and the availability of overdraft facilities has been reduced.
- 2.7 The timing of these restrictions on lending by banks continues to have a detrimental effect when many retailers most need their assistance given the increase in business overheads across the sector and the impact of reduced returns and cash flow.
- 2.8 The IRC is calling for Government to continue to put pressure on banks to provide access to finance to small business, particularly in view of public ownership of several major banks.**

Changes to VAT

- 2.9 Changes in the VAT rate result in independent retailers having to increase staffing hours to change labels and update computer systems, as well as additional investment in staff training and customer relations.
- 2.10 The return to the 17.5 per cent rate for VAT at the start of 2010 created considerable challenges for the sector. IRC members previously voiced concern that this was poorly timed in submissions to HM Treasury and the Department for Business, Innovation and Skills.
- 2.11 Retailers should not be expected to absorb increases in VAT. However, in practice this is often unavoidable to some extent due to intense high street price competition and restricted customer demand as a result of the economic downturn. This effect is inevitably felt disproportionately hard by retailers with relatively smaller profit margins, such as independent.
- 2.12 Given the current state of the public finances we are mindful that the Government may be considering a further increase in the VAT rate as part of the Budget. The IRC believes that such**

a change would be damaging at a time when the UK economy has only recently reported a return to growth. **We are therefore calling on Government not to further increase VAT in the Budget.**

Employment costs

- 2.13 The IRC believes that consideration must be given by Government to avoiding over-burdening employers by adding costs to creating jobs, especially at a time when unemployment is high. The IRC has particular concerns in relation to employers' **National Insurance Contributions (NICs)** and the **National Minimum Wage (NMW)**, which are set out below.
- 2.14 In the near future retailers will also need to pay for pension reforms, higher entitlement rights for staff and added benefits for agency workers, which combine to create considerable costs for businesses.
- 2.15 The IRC is concerned that increases in NICs lead to a direct increase in operating costs for businesses, which negatively impacts upon retailers' desire to create jobs and expand businesses within the sector. In many cases this can result in retailers having little choice but to reduce staff and employed hours.
- 2.16 **The IRC is therefore calling for the proposed 1 per cent increase in National Insurance Contributions in 2011, which will have the impact of imposing an additional tax on employment at a time when UK unemployment is high,¹ to be cancelled.**
- 2.17 Retailers – specialist and others – are dependent upon employees as their number one unique selling point; nothing is more important in independent retailing than people. Independent retailers therefore greatly value their staff and want to pay them a decent wage.
- 2.18 We note with some concern, however, that the Prime Minister recently committed to increase the NMW every year for the next five years. We believe that this contradicts the whole role of Low Pay Commission (LPC) which makes recommendations to Government on NMW issues.
- 2.19 There has been a 60% increase in the NMW since its inception, and increases have a direct impact on the wage bills of retailers. Continued increases have negative consequences, including the reduction of staff hours, the inability to employ new staff, the negative effect on pay structures, and, in the worst cases, employees having to be laid-off.
- 2.20 Retailing by its nature is a labour-intensive industry which employs large numbers of staff at, or just above, the NMW, and employees are the industry's key variable cost. Over a number of years, businesses have had to significantly cut back staff hours and too great an increase in the NMW over the coming years will likely result in some businesses having to close.
- 2.21 **The IRC is therefore calling for Government to make any future changes to the NMW based upon the recommendations of the Low Pay Commission.** The IRC will continue to engage with the Low Pay Commission on future changes to the National Minimum Wage.

¹ This is evidenced by the unemployment rate being at 7.8% for October to December 2009, according to the Office for National Statistics.

Business Rates

- 2.22 The IRC has previously raised concerns to HM Treasury in relation to the impact of the 2010 rates revaluation, in view of it being based on 2008 rental return figures, which are not reflective of the sharp drop in these costs since that year.
- 2.23 While we support the Government's five year transitional rate relief scheme, judging it to be the fairest way of phasing in increases without overly encumbering a particular sector, we are concerned about the number of businesses which claim relief under the Small Business Rate Relief Scheme. Indeed we understand that over half of businesses which are eligible for the Scheme do not claim relief.
- 2.24 The IRC is therefore calling on Government to apply Small Business Rate Relief automatically for those businesses qualifying under the Scheme, providing immediate support for these businesses at this difficult economic time.**

3. Conclusion

- 3.1 The IRC welcomes the opportunity to submit a written paper to HM Treasury ahead of the 2010 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.
- 3.2 This paper has highlighted the importance of access to credit from banks, the effects of increases to VAT and employment costs, and the 2010 Business Rate revaluation.
- 3.3 The cumulative impact of these issues is that many independent retailers are being hit disproportionately hard at what has been, and continues to be, a challenging time for the entire retail sector.
- 3.4 This submission has outlined a number of actions that the IRC believes the Government can take to improve the situation for independent retail. Specifically, this paper has called for Government to:
- ❖ **Continue to put pressure on banks to provide access to finance to small business;**
 - ❖ **Not increase VAT in the Budget;**
 - ❖ **Cancel the proposed 1 per cent increase in National insurance contributions in 2011;**
 - ❖ **Make any future changes to the NMW based upon the recommendations of the Low Pay Commission;**
 - ❖ **Apply Small Business Rate Relief automatically for those businesses qualifying under the Scheme.**

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 has to say. The IRC would be happy to provide further oral or written evidence to HM Treasury as required.

4. 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 given the removal of the 'need test' from Planning Policy Statement 4: Planning for Prosperous Economies (PPS4). 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, and is engaged with the Better Regulation team within the Department for Business, Innovation and Skills on this issue.

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.

Access to Finance: Recent years have seen a wide-scale reduction in the flexibility of banking support over the past year with banks introducing more stringent lending criteria and reducing overdraft facilities for independent retailers. The IRC is working to ensure that Government is informed about banks introducing and continuing to maintain restrictions on lending at a time when many retailers are in most need of credit.

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:



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.

Correspondence:

Daniel Bacall
Luther Pendragon
Priory Court, Pilgrim Street
London, EC4V 6DR

Tel: 020 7618 9100

Email: danielbacall@luther.co.uk