



Built Environment Committee

Corrected oral evidence: High streets in towns and small cities

Tuesday 5 March 2024

10.51 am

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Members present: Lord Moylan (The Chair); Baroness Andrews; Lord Bailey of Paddington; Baroness Eaton; Lord Faulkner of Worcester; Viscount Hanworth; Baroness Janke; Lord Mair; Lord Mawson; Baroness Miller of Chilthorne Domer.

Evidence Session No. 3

Heard in Public

Questions 39 - 55

Witnesses

I: Michael Weedon, Policy Champion for Place-Based Economy, Local Government and Retail, Federation of Small Businesses; Graham Wilson OBE, Deputy Chief Executive and Legal and Policy Adviser, National Association of British Market Authorities; Laura Onita, Retail Correspondent, Financial Times.

Examination of witnesses

Michael Weedon, Graham Wilson and Laura Onita.

Q39 **The Chair:** Welcome to this meeting of the House of Lords Built Environment Select Committee, and the third evidence session in our inquiry into high streets in towns and small cities. Today, we welcome three witnesses. Michael Weedon is the policy champion for place-based economy, local government and retail at the Federation of Small Businesses; Graham Wilson is the deputy chief executive and the legal and policy adviser of the National Association of British Market Authorities; and Laura Onita is the retail correspondent at the *Financial Times*.

My name is Daniel Moylan and I chair the committee. I do not intend at this stage to introduce individual members of the committee. I will call their name as they ask questions and they all have nameplates in front of them, in any event. Also present, although not visible on the screen, is our specialist adviser Lucy Montague. She is joining us remotely for this particular meeting. With that by way of introduction, could we start with our first question?

Q40 **Baroness Andrews:** Good morning. It is very good to see you. My question is to Mr Weedon and Ms Onita. In the course of the inquiry so far, we have heard a lot about what is happening with changes on the high street. It has been made clear to us that not all these changes are universal; there is no one size fits all when it comes to trying to think about alternative ways of development. That leads us to think about whether there is a common definition any more of what constitutes a high street.

It is an all-purpose question. How would you define a high street these days in a town or a small city? What is its current purpose? Has it changed? If so, how has it changed? Mr Weedon, would you like to start?

Michael Weedon: If I may, Baroness. When you see one, you know it. Generally speaking, we are still talking about a geographically defined area. The Local Data Company, for example, has nice little maps from original local authority definitions of towns. They are high streets that have often been redefined in later plans.

We think, at the Federation of Small Businesses, that there is a concentration of both commercial and non-commercial interests in where people go. It is a rich ecology of things. It is different, for example, from a retail park, because only in a town centre and around a high street will you find non-food retail, food retail, hospitality and leisure, as well as local government, culture, libraries, religion and so forth. That rich ecological mixture is one of the things that we think has been somewhat changed over the last few years, particularly with the, at least partial, flight of big retail from town centres to more cost-effective and retail-friendly places such as retail parks.

High streets are generally historical entities; they are easy enough to find on maps and fairly concentrated. They tended over the last few decades to spread out from the original centres, but they are tending to reconcentrate a little, perhaps in relation to the conversion of offices and shops to accommodation. The concentration is being seen again. They are different in that some are suffering and some are thriving. I know of places within 20 miles of each other that are doing both.

We would say that high streets are concentrated historical areas containing a mix of consumer-servicing businesses. We do not like to talk just about retail because, although we think of high streets as about retail, retail has never been more than about 35% of the shops in town centres. Looking at publicly available figures, that has dropped now to about a quarter, and roughly a quarter are hospitality and leisure. There are services as well, with lots of offices around those places—the things that give vitality to the place during the whole week, rather than just when people go shopping.

We think it is that mix. They are pretty easy to identify, when you look at them. That is how we would characterise them. The ecology idea is critically important because, as we know with the climate, we are all worried about the ecology generally and the damage that can be caused even through fairly small, long-term effects to an existing structure. That is a risk that high streets, as we all know them, face. Is that helpful, Baroness?

Baroness Andrews: Extremely helpful. Thank you very much. There are also some very good statistics in there. Before I move on to Ms Onita, can I follow up on a couple of things?

In the course of our conversations, we have been listening to people talk about a narrative of decline and a narrative of adaptation. You have talked about places that thrive and places that are not thriving. It is not a binary choice, but my first question would be whether you have a preference for a decline scenario or an adaptation scenario. Would you like to guide us one way or the other?

Michael Weedon: High streets are changing. One reason why they are changing is that big retail has been finding its way out of town.

If I might digress a little, I did some work on Northampton. Northampton has some challenges and it has some big shops, which are closed, in the main shopping street. It has received fairly large amounts of money from the towns fund to try to sort out those big premises, which are part of the problem. Small premises tend to get re-let quite quickly. Big premises are the problem. It takes a lot of money and effort to change them for other uses.

Presenting at a meeting we had in Northampton, some six years ago, I went back to the 1919 town directory and traced what was in all those units pretty much a century before. What I found was that they were almost all independents. This is true; almost two-thirds of businesses in

town centres are independents. There was an amazing mix of things such as social clubs. You often hear, "We want to bring more social activities in". There were three churches and four manufacturers' offices. I do not know if this was related, but there were seven confectioners and seven dentists. We often hear about the use of high street locations for medical and other uses. It looks to me a bit like "Back to the Future" in a way—fragmented uses with a richness of things to bring people into towns. That is important.

One of the things about towns is that people generally have to go to them. In Northampton, which is a good place, it is not unfair to say that it is easier to get out of the centre to go shopping than it is to go into the middle, for a variety of reasons. It is working very hard on it and it will be a success, but it has challenges, partly because it is a big town. It seems to me, as with the cities, that the bigger the place, the bigger the problem because they had bigger retailers.

Baroness Andrews: I am surprised. I thought you would say it is full of boot and shoe manufacturers, so what you have just said is extremely interesting.

Michael Weedon: Thank you, Baroness. The shoe manufacturers are still there but they are all in the back streets.

Q41 **Baroness Andrews:** Very interesting. You talked about its being more difficult to re-let a large retail space than a smaller space. We have heard how many different obstacles there are to people moving back into high streets. They will not be the same, obviously. We know by now, and have been told by witnesses, that there is no one solution, and there is no single set of immovable problems either, but what would be your three top barriers? How might they be overcome? Would it be by people filling vacancies on the high street or, indeed, in markets?

Michael Weedon: The bigger the premises, the bigger the problem. There is definitely a move towards the reuse of large premises for multiple uses, which might be working spaces or accommodation for people to live in town centres. It might be a bit of retail as well. Changing the premises for those purposes is a challenge.

I will give you an example of how public investment, but not long term, can change some of this. There is a very fine building in Market Street in Leicester. It used to be a Fenwick department store and it was empty for a long time as Fenwick pulled out. A family-owned company, thriving in the north, it had a problem there, partly because footfall moved away from its location to the Highcross centre and some large employers moved out of the area. The building sat idle for a while, but there was a plan, as there often is, to change it into multiple use. The multiple uses are an aparthotel—I am not sure what an aparthotel is, apart from a hotel; somebody might explain that to me—co-working space for individual workers and small businesses, and some retail units. The problem was getting the investment in place.

What unlocked it was ERDF funding through the local LEP—a loan, I was told, of £4 million. That unlocked the development for the developer and was repaid within two years. It is now a place called the Gresham. It has an aparthotel, whatever that is. It has co-working space, which I have used, and is good. It has some retail units, which the council has helped—councils are critical in this—by taking the ground leases on the retail units on the ground floor of what was, once upon a time, a huge department store.

Unlocking the ability to do that is a critical element. Partly it is because the challenge is that a lot of these buildings might not be as you would wish them to be. They might contain asbestos or need a huge amount of rejigging. In some cases, they might need flattening and rebuilding completely. It is different from the re-letting of a small shop. As the scale goes up, the problems become bigger. Councils in particular, as they now more often have the funding in their hands, are in a position to help do that unlocking. There is always a froth of new businesses coming—my apologies, Chair.

Laura Onita: That was a very comprehensive answer. I am sure we will come on to this as part of our conversation. A big obstacle from the retailers' perspective will be the conversation around business rates or, more broadly, the cost of opening a store in a location that arguably is not profitable or does not make money. That is or would be a big consideration.

As Mr Weedon said, the fact that there has been a move of anchor tenants or major retailers from specific high streets or shopping centres makes it less attractive for other retailers to agree to some of the spaces. Given business rates and the costs of doing business and fitting out a store, it would be a very pragmatic decision from the point of view of a retailer as to whether it is economically viable to open in a specific place or not.

Baroness Andrews: May I ask—

The Chair: We need to move on. We have had a quarter of an hour already just on your question, if I may say so.

Baroness Andrews: I beg your pardon.

The Chair: We want to hear from Mr Wilson as well. How would you respond to Lady Andrews?

Graham Wilson: The town centre is still seen as the focus, the heart of the town. Clearly, it is changing in its character and use, and markets are adapting to the change. For example, as banks close their branches in town centres, we have seen markets taking on the responsibility of providing a service by having a bank bus or a banking facility provided at markets. In many places, markets are taking on a more significant community role, from health team visits and mental health provision to providing a police facility. There is a long list of markets taking on a non-

retail responsibility and filling a vacuum that is being left by banks and other providers in the town centre.

Regarding the wider town centre picture, I endorse and agree with everything that has already been said. There are some major issues with large vacancies brought about by some high street retailers disappearing from the high street. We are seeing, where I live, one of the major empty stores being converted into a museum and library. This is where the local authority has a very important role in helping to secure the redevelopment of some of the empty properties.

I regard the high street as still having a successful future, but a changed future. It is the case, based on research that we have had undertaken by the Institute of Place Management, that the high street always seems busiest when markets are around, which is something we are very, very proud of.

The Chair: Good.

Q42 **Lord Bailey of Paddington:** Good morning, panel. My first question is to Laura. Consumer preferences are changing. How can retailers respond to that? Are there any examples of retailers who have responded well to the change?

Laura Onita: The easiest way to answer your question is that, for a retailer to be successful in this day and age, they need to meet the customer where the customer wants to be. We cannot think in binary terms any more. We cannot think of e-commerce or online retailers and physical retailers any more.

The most successful ones are usually retailers who have managed to do omnichannel retailing very well. I am sure you have heard about this: if you have managed to integrate your operations very well, I will look for a specific item on my phone, probably at home, but will decide that I want to pick it up in store tomorrow at a time that is convenient for me, because I am going to work. If you make that journey seamless for the customer, starting from sitting on their sofa in the comfort of their own home to picking it up tomorrow after they have finished work or before they have finished work, for example, you often manage to retain that customer, if that makes sense. It is the seamlessness of helping the customer buy on their own terms when they want and how they want, whether on their mobile, click and collect, or delivery at a time that is convenient for them.

Lord Bailey of Paddington: Does the omnichannel retailing paradigm work for small stores? A conversation we have had is that a lot of markets, a lot of town centres, have individual boutique stores. Do they still have access to that opportunity? Are you seeing them perform in that way?

Laura Onita: I might defer to the other members of the panel. I can think of an example on my local high street where there is a liquor store, a wine store. It is an independent shop and they have managed to

survive and do good trade because they have started doing deliveries nationally. I think it can work. The barriers to entry to sell online are very low and quite cost effective, if it is managed well. In addition, as we have seen with some of the smaller businesses and smaller retailers, especially if you are a corner shop, you can try to supplement your revenue and activity by having click and collect or pick-up points for other retailers. Often, your corner shop partners up with—not to name names—various logistics operators, allowing you go to your corner shop and pick up your delivery and, when you are there, you might buy various other things. It is possible, even if you are a small independent.

Q43 Lord Bailey of Paddington: Michael, some high streets are seeing a prevalence of specific businesses, such as cafés or charity shops versus traditional retail. To what extent is that driven by policies around rent or by customer preference? Which is leading the change?

Michael Weedon: I would draw a distinction, if I may, between chain businesses and independent businesses. I have already suggested that what we have seen is a flight of the larger businesses, which had the bigger units, from town centres. This has opened up what we see as great opportunities for small businesses; if there are 70,000 empty shelves, that is 70,000 opportunities to open different things.

Charity shops are turning out to be a footfall generator in towns. They are proof that the policy built into business rates, given the discount they have, shows that low business rates can definitely produce a large market of small businesses, ideally the charity shops, in towns. It is, effectively, a subsidy and it works. It shows what you might do if you achieved the same effect with, for example, small business rate relief, which we would like to see extended to £25,000 in the market generally. It clearly helps; we can look at the numbers. We think that is important.

Customer preference is also important, with the switch away from product to, say, service—personal services, hairdressers, barbers, things like that. There is a hidden hand in all of this, which is, as we are all well aware, that the population has been growing since 2005; more heads, more hair to cut, more mouths to feed in cafés and so forth. The population assists, as well as preference. As Laura said, people now have choice with product, less so with other areas; it is difficult to get your hair cut online. Location—back to our town centres—remains an important part.

Lord Bailey of Paddington: Graham, the same question. Are markets seeing a prevalence of a certain type of store? Is changing customer desire driving what markets are providing, or are markets still quite resilient?

Graham Wilson: First, markets tend to be a very traditional way of trading. We have a very loyal customer base, largely an elderly customer base, people who tend to like personal interaction. We operate largely on that basis.

The Covid pandemic changed a lot of attitudes in the industry. The pandemic required new approaches to be taken, with new initiatives such as click and collect, home deliveries, the use of social media to deal with orders and so on. We found that acted as a catalyst to create a different kind of relationship with the customer. We are getting a new generation of market trader—traders who are used to engaging with people on a different basis. We are seeing an increase in the way that interaction takes place between market traders, and there is a lot more interaction via social media, click and collect, website orders and so on. The nature of trading on markets still has a large traditional base, but it is beginning to change, particularly because of the incoming younger breed of traders.

The Chair: We must move on now.

Laura Onita: May I add very briefly to that point?

The Chair: Yes.

Laura Onita: On the prevalence of charities on high streets, obviously no one is contesting their role. I was speaking to a large retailer about this, who has great exposure to high streets up and down the country. They are looking to open more stores. A point they raised, to your point that if you are a charity you get a lot of rate relief, is that you have low operating costs because often you have volunteers as staff. If you are a charity, you can often afford more competitive rent rates than some of the retailers wanting to take over some space. That leaves you in a position where, arguably, charity shops are almost competing, in a way, for space with retailers and whether that has to be a conversation with the landlords. How do you make that equitable? Of course, no one is contesting the role that charity shops play on the high street, but I wanted to make the point that they can be more—

Lord Bailey of Paddington: It is commercial reality.

Laura Onita: Yes, they can be competitive on rents.

The Chair: That point I will come to later. It is a question of how you prevent rates relief from being simply a subsidy to the landlord, which is fundamentally economically what it is, because you still have free competition for rents. It just escapes the other way and all ends up in the pocket of the landlord.

Q44 **Lord Mair:** Mr Weedon, in your answer to Baroness Andrews, you referred to out-of-town retail parks, out-of-town shopping centres. Are they a real threat to the high street? Is there a change in customer preference more and more to out-of-town shopping centres because of free parking and all the shops they might want being in one place? Is this a real problem? Is it the demise of the high street? I would like to hear from all three of you, starting with you, Mr Weedon.

Michael Weedon: This particular development has been going on for a long time. I wrote my first report about business rates 10 years ago for a different association. At the time, most of the analysis was about the

effects of the alternative to a town centre, which was retail parks. There are about 3,000 of them in the country as a whole.

You can tell from the fact that the vacancy rate among retail park shops has been significantly lower than it is in high streets, and lower than in town centre shopping centres over the long period, as evidenced by data from the Local Data Company, that they are successful. They are popular with shoppers who like not to pay for parking. They are convenient in many ways. The sheer area they cover and the number of shops in those 3,000 locations tells you that they are successful, but the population has not gone up that much in the last 30 years and it is all made up of spare people's trade. The answer is that they have taken traffic from town centres, people traffic, or footfall as an alternative—I suppose the rest is wheel roll. Subsequently, of course, we have then seen the other alternative, which is pure play online shopping.

The high street has been facing two major challenges over the period. Small differences over a long period in, as an example, business rates as a tax can have very large effects. Out-of-town centres are successful because they are popular, but they are not helping the town centres.

Laura Onita: I agree in its entirety with what you have just said. You can just look at the footfall figures. It is not an absolute metric but even last month, over the past year, retail park footfall is up; at shopping centres in high streets it is down. It seems to suggest the long-term trend that has been happening for a while, but as they become more attractive, fewer retailers will be able to afford to trade there or take space there, so I do not think it necessarily means that everyone will suddenly be able to afford a space in a retail park. Again, it will be competitive. If it makes business sense, if you are a large retailer selling big-ticket items, yes, by all means be there, but that will not be the case for every one of those retailers.

It is important to point out that convenience and e-commerce, as part of broader retail, is one sector that has been growing when other segments have not been. Convenience retail means smaller shops locally, closer to people. I do not think we should just write off high streets and shopping centres. Undeniably, retail parks are very popular; it is right that you acknowledge it.

- Q45 **The Chair:** If people prefer retail parks, is it a quixotic and pointless exercise for us to be considering the preservation of traditional high streets? For convenience shopping when you want something close by, that very often is not your town centre high street. It is the corner shop, or the little parade of shops in the suburb, rather than the high street in a town or city. Should government policy be directed at preserving something that people may no longer value? I ask provocatively, but the question deserves to be asked.

Graham Wilson: The high street is facing challenges and they have been highlighted by the out-of-town shopping centres and online, but the high street is an entity that will survive. We see at the moment that it is

adapting to ensure its survival. I mentioned in relation to markets the fact that many are now adopting a community role, with services that people need and people come into town to take part in. Markets are utilising and providing those services. People want to come into the high street primarily to shop, but to be the recipients of services, to have a cup of coffee, to meet friends and do social things. The high street is adapting to its new role. It will always be the focal point, the heart of the town. It has a future, most definitely. It is perhaps not the situation it had 20, 30 years ago, but it has an important role for the future.

- Q46 Viscount Hanworth:** This question is for Laura. A number of well-known high street brands went into liquidation during the financial crisis and the pandemic. Was this in consequence of a systemic weakness in the trading arrangements or mainly a consequence of their financial weakness? I am conscious that many of these brands had been subject to conglomerations and leveraged takeover bids that left their new owners highly indebted. I also know that some of them were paying exorbitant dividends to their owners and investors. Can you enlighten us on those circumstances?

Laura Onita: I know exactly what you mean. I will try to keep it brief, but it is complex. More often than not, the collapse of a lot of businesses that have gone into administration will have been due to both those factors. You cannot ignore the fact that retail in general has become a tougher trading environment and it is the survival of the fittest. You either sell the right things at the right price in the right way or you should not have a right to exist, coupled with business management or ownership decisions that perhaps meant that they were not fit for purpose. I know the example to which you are referring. We can talk about Debenhams. That was a fairly well-documented case of private equity ownership with a lot of money being taken out of the business, which meant that it did not have money to invest to change and adapt to the times. Stores became redundant, and it was not a pleasant shopping experience. Why would you go there? There are those examples.

There is the more recent case of Wilko. It was very sad to see that disappear. Having listened to a similar committee in that case, perhaps its demise could have been avoided had swifter business decisions been made ahead of time. It needed a retail restructuring specialist to come into Wilko to make firmer decisions quicker on restructuring. That is my understanding. Arguably, Wilko's closure could have been avoided. It is a mix of business decisions, ownership, who has lent you how much money, and ultimately whether people want to shop with you. It is not a straightforward answer; it is all those things.

Viscount Hanworth: May I pass the question briefly to Michael and Graham? Laura has discerned that I had in mind Arcadia, of which Debenhams was one part. Perhaps that is a more general pathology. Could either of the other two witnesses comment?

Michael Weedon: I echo what Ms Onita said, which is that the indebtedness of large companies is a problem. It can be because of

private equity, which basically loads up a business with debt in order to purchase it. One clothing chain, which I will not name, was carrying £350 million of debt and had 350 stores, so each store had to service £1 million of debt. They are still in existence, so they can get past that. That is a problem smaller businesses tend not to have; they have other problems, but big businesses in particular have been challenged by that. The other thing they have had to do is make sure that they are wherever the customer wants to be whenever they want to buy, and I think some have done that better than others.

Viscount Hanworth: Graham?

Graham Wilson: I have nothing to add to what my two colleagues have said, to help the hearing.

The Chair: We have some questions on markets.

Q47 **Baroness Eaton:** I confess, very happily, to loving the street markets and town markets in Yorkshire where I am from. Can you tell us what is necessary to make a local market thrive?

Graham Wilson: Indeed. A number of factors would make a market thrive. The first is a plan about how the market sits within the community and the local authority's responsibilities for the area. About 82% of markets are operated by local authorities, so the role of local authorities is very important.

Secondly, there should be a professional market team. Markets are sometimes looked on as a service that anyone can operate, just collecting the rents and making sure that the traders close on time. A successful market is normally one that is run professionally and well, and is seen to be well supported by the local authority.

The third thing is good rapport between management and traders. Lots of markets are currently going through changes, challenges and redevelopments, and having good engagement between management and traders is an essential part of that.

Fourthly, there should be good promotion and marketing. A lot of it is free. Lots of markets do not take advantage of the opportunity of telling a good story about what they are doing: providing community services and opportunities for young people to get started in a business. It is about good promotion and marketing.

Finally, it is about having a market champion, somebody responsible for championing what the market is doing, what it is about and its successes. As I said earlier, some 82% of markets are currently operated by local authorities. One thing we have done as a national organisation is to reach out to elected members of councils and seek to engage them with their markets and introduce a market champion. Those are five issues I would commend to you as important to ensuring that a market thrives.

Q48 **Baroness Miller of Chilthorne Domer:** I completely agree that within a

local authority you need a champion. I speak as an ex-councillor in Somerset where we have a number of thriving markets. First, in these days of straitened finances for local authorities, do you think that is a threat? Secondly, you identified a couple of other threats—for example, the age group of both customers and traders. Do you think that is because many markets take place in the morning when young people are working? Do you see any shift to a more flexible time of day?

The Chair: If I may come in before you answer, I too am a former councillor in a council area that has one world-famous market. Is it not the case that the rents charged by the local authority and the fees for services, such as waste disposal, are meant to cover the local authority's costs, so that there is no financial burden on the ratepayer or council tax payer as a result of operating a market? Is it correct that questions about cuts in grants to local authorities need to be understood in that light?

Graham Wilson: There are two ways in which charging for market stalls is approached. It depends on the legislation that is used to run the market. If it is a street market that is run by way of street trading legislation, the requirement under that legislation is to equate income with expenditure and no profit to be derived. If the market is operated under more general market powers—market charter legislation—which goes for the vast majority of markets in the country, those markets can be operated on a commercial basis and make a profit.

The Chair: For the local authority?

Graham Wilson: For the local authority. In years past, many local authorities were the recipients of substantial surpluses from their markets, particularly the big city markets of Leeds and Manchester. Those surpluses were spent on mainstream local authority services, so they went into education and social care and were a significant contributor to the local authority's budget.

Sadly, those days are behind us. A survey that we conducted in 2022 indicated that fewer than 50% of local authority markets are operating at a surplus, so in many places it is necessary for the local authority to subsidise the cost of running the market. That means that the local authority has to justify that contribution. Part of our argument as a national organisation is that it can be justified by demonstrating the wider community value of the market. Services provided by others in the past are now being undertaken by the market.

Finance is an important issue for markets at the moment. It is a discretionary service. It is one that the local authority can choose to operate or not operate. What is interesting is the ability over the past 10 years of local authorities to seek an alternative provider for the market. For example, a private company might be willing to take on responsibility for the market and perhaps make a contribution to the local authority for that arrangement. That situation has changed dramatically because of the financial situation of many markets. Fifteen years ago, about 68% of local markets were run by local authorities; now it is 82%.

Local authorities are taking on more responsibility and in many cases have to find more cash to support the markets.

Baroness Miller of Chilthorne Domer: Can I follow up the second part of my question?

The Chair: I was going to come to that. I have a question on this answer. It suggests that the commercial activities of market traders are less profitable and generate a lower surplus than in the past; otherwise, they would be able to afford to pay the local authority rents that would make the market sustainable and self-financing.

Graham Wilson: One reason for the financial situation is that there are fewer market traders around. There are some very successful markets around the country; some are full to capacity; but the average occupation rate for markets when we undertook our 2022 survey was around 72%. That was significantly down on the previous survey we carried out in 2018. The fact is that, over the last 20 years, we have lost over 20,000 regular market traders, which means that many markets are simply not getting income from stall lettings.

The Chair: But is that loss of traders due to loss of profitability?

Graham Wilson: Yes.

The Chair: It is not a demographic question; they are simply less profitable.

Graham Wilson: Yes.

The Chair: Could you address Baroness Miller's question about flexible hours?

Graham Wilson: I mentioned in response to an earlier question that markets are a very traditional industry. Many markets operate on the normal opening hours of nine to five. We are seeing more event-type markets—food festivals and Christmas events—where opening hours are much more flexible. We find that the event markets attract a younger trader profile. The younger trader finds it easier to trade on the basis of one or two days a week and use the more flexible hours. We are accommodating the younger traders and those who want more flexible arrangements, particularly with the market fairs and special events that are growing more and more popular.

Q49 **Lord Faulkner of Worcester:** Continuing the same theme, Mr Wilson, what would you say are the main business models or tenancy contracts that are most likely to ensure success in both the high street—perhaps your colleagues can answer that one—and market stalls?

Graham Wilson: Most market stalls have very short-term letting arrangements. That is one way in which new entrepreneurs can test their business without having to commit to significant investment in property and rent. For example, you can take a market stall for a day; you can

take a daily licence. You can see how things work out over a period of weeks. Fingers crossed, the business will be successful; if not, you can get out of the arrangement very quickly. The majority of markets are based on short-term tenancy arrangements that have been the cornerstone of the market industry for years and years.

Lord Faulkner of Worcester: Does your association track how those go, so that you can say, "This is an example of a really successful one because—"?

Graham Wilson: Indeed. The majority of markets in the country are open markets and they grant daily licences to traders. Some traders passport from the market to high street shops. Some have become national names because of their success in a market. It is an opportunity to test your business ideas without committing a great deal of investment or security.

Michael Weedon: I do not think I have anything particular to add, but if you look at—

Q50 **The Chair:** Could we slightly widen the question away from markets and ask about shop-based retail and the traditional lease structure that businesses have adopted? I know that it is now rather more flexible, but it used to be a 25-year lease with five-year upward-only rent reviews. That is all historical; it is now more flexible. Could you expand the question to whether there are other models that might be more appropriate for retail, including small shops?

Michael Weedon: Thank you, Chair. That question has been resolving itself. We have seen, as you said, a move away from the 20-year lease. Many retailers I knew many years ago would not have considered anything else because their location was their prime asset. Shorter-term leases are important. Flexible leases are important. The other thing we have seen coming along quite a lot is licences. That probably takes us into market territory, especially when you have lots of new businesses being created that are untested. Rather than the full leasing arrangement, it is much more flexible, but slightly higher risk in a way, because a licence can be taken away from you much more easily than a lease. There is a very fine line between those two things.

Lord Faulkner of Worcester: Do you have an overview?

Laura Onita: I do. Again, I will keep it brief. In addition to those two points and a trend for shorter leases and break clauses more often, we have seen arrangements pre-pandemic and post pandemic between retailers and landlords. From conversations with retailers, I would say that the arrangements pre-pandemic were a lot more onerous on retailers as opposed to now because having shops closed on and off for almost two years on end made those conversations a lot more difficult, but it also led to a normalisation of those relationships. One thing that we have seen come out of that is turnover-based rents, which is something that retailers have argued for a lot.

Basically, rather than pay an upfront fee for five years or 10 years or two and a half years, you pay a percentage of the turnover that the store makes, which makes it a bit more equitable. Sometimes that can be structured on top of a base fee. You would have a base tenancy and then you would top up the rest of it with a turnover-based agreement. We have seen that happen, which is also an indication of the fact that they have been thinking of solutions and trying to come together to figure out the best ways for landlords to keep having tenants and for tenants to keep occupying those premises.

Lord Faulkner of Worcester: It depends on retailers being honest about what their turnover is, though.

Laura Onita: Especially if you are a listed company. I do not think you can get away from that, but I appreciate that a lot of them are private, so, yes.

Michael Weedon: It is a common arrangement in shopping centres where a requirement of the lease is that you report your turnover, and even more so with retail parks. Honesty is not necessarily required in that case.

Q51 **The Chair:** Is there a danger of the balance going the wrong way? In addition to what you are describing, many retailers can secure rent-free periods or discounted rents for certain periods. There are, of course, anchor tenants who are capable of setting a very good bargain for themselves because they can attract other retailers to a particular location.

Is there a danger of the balance going the other way, and landlords withdrawing from retail given that use classes are now so flexible and it is possible to turn retail into residential? Could you see the threat to the high street coming from the balance falling in the wrong direction? You do not have to keep your shops as shops any more, and the demand for residential is huge.

Michael Weedon: There is a danger of that. There are dangers everywhere in retail and high streets. Because of the permitted development rights for the conversion of quite a large range of retail operations to accommodation, landlords would have that choice. We see it as a particular danger for high streets. Our submission on it when we were asked by the appropriate department was, "Don't necessarily give free rein for redevelopment to residential in what were your traditional high streets, but around them that makes entire sense". As those areas were defined on maps and you could see them, it made sense not to give free rein, because there are small towns that cannot survive the loss of key retailers, in exactly the same way that they struggle when their banks disappear.

There is a certain quantum of activity and livelihood with the ecology I was talking about earlier that keeps the high street as a vibrant place that people need to go to and want to go to. We think there is a bit of a

danger that alternatives in those specific locations, and the only ones we are talking about today, could cause some problems. Flexibility generally has so far been helping. Is that fair?

Laura Onita: Yes.

Q52 **The Chair:** Could I come now to the vexed question of business rates? Mr Weedon, your association would like business rates reduced, or at least the exemption for smaller businesses expanded so that it covered more businesses, and maybe both. We have already heard in earlier evidence, sort of accidentally in a way, that doing this can be a tremendous boon, especially as leases fall due and come to be renewed, to the owner of the premises without giving any great benefit to the retailer. Why is it that businesses are so keen on seeing business rates reduced?

Michael Weedon: All businesses are keen on seeing their costs reduced. We have had small business rates relief for many years. It is there because it is known to be needed. It was brought in to help small businesses. Particularly with small businesses, there are two things that they need. When they are growing, when they are being established, they have to pay business rates from day one whether they have any money in the till or not, and that is important.

The Chair: They have to pay rent from day one.

Michael Weedon: They have to pay business rates as well.

The Chair: But they have to pay rent.

Michael Weedon: Yes, they have to pay both. The interesting thing about the business rate, Chair, is that it is an odd tax because it is geared precisely to rents. In town centres, although rents fell a bit at the last valuation, they still remain high in comparison to retail parks. We still see that, for historical reasons, rents in town centres are much higher and rates are geared to them. It is recognition, I think, in small business rates relief that they need help to be able to deal with that.

There is an advantage to doing it. Over the last seven or eight years, larger businesses have been getting rid of shops; part of their business has moved online and part out of town. Small businesses, net, have grown in number rather than fallen. Small businesses open shops at the drop of a hat, and one thing that enables them to do that is the rates exemption for small businesses. We think that advantage of potential growth, which has been demonstrated by these numbers—

The Chair: We all understand that. We all understand that, if you make something cheaper, more people will come in. The question is whether it is actually making it cheaper. The other shoe that has to drop is the rent that you pay. Let us say that you are setting up a business and you know that you will have the deadweight cost, before you make any profits, of occupying premises, and you know what that is because you know what the business rates are and you know what rent you are willing to bid in

order to get the premises. You have worked that out to some extent.

If the business rates go down, it simply means that you are willing to bid in a competitive market where there are other people bidding for that shop, we assume. You are willing to bid the rent up to get the premises that you want. You get a pound in one pocket, but it increases what you have to pay out of the other pocket. The beneficiary is the landlord because the business rates are fundamentally a tax on property ownership, not a tax on running a business. They are simply paid by the business owner, which is a mistake presentationally, but changing it now would be very complicated. How do you prevent that happening? We already hear examples of charity shops outbidding commercial small businesses that might occupy those premises because of the benefit they have. Their rent is going up. They get the charitable relief on the business rates, but they are paying higher rents because they can afford to.

Michael Weedon: I will not make a “stands to reason” argument; I will just use a “stands to the evidence” argument. At the last VOA revaluation, we saw a small but significant fall in rental values in town centres. They are higher on average by some way than they are in retail parks, and they remain that way. They have come down glacially slowly, although they have come down a bit. On the basis of the argument that you just put to me, you would expect them to go up, not down. Actually, the evidence is that they have come down a bit.

The Chair: Only in response to a change in business rate subsidies. You are not suggesting that there has been a change in business rate subsidies. The regime we are operating under has not particularly changed in recent years, as far as we know. It is baked in.

Michael Weedon: We have had the discount for retail and leisure on top of small business rate relief. It is affecting other businesses as well, so there has been a change in that respect. We think that the reason why rents do not come down in towns is that owners do not want to crystallise losses, or that they have a bank mandate on a mortgage that says that they have to maintain rents at the same level. It is a really complex problem. I do not think there is a simple mechanical relationship between rents and business rates, and we do not think that it is all to the benefit of landlords.

Laura Onita: It is just demand. The conversation that everyone, whether policymakers, small retailers or big retailers, has been trying to have for the past 10 or 15 years is whether it is time to modernise the system in addition to asking for a blanket deduction in business rates. The case has been made for how you level the playing field between traditional physical retailers that have exposure to shops versus online. We do not have an answer to that yet. Maybe we will. I believe that is a point of contention, because, whether we like it or not, about 40% of total sales in this country are made online and 60% in shops, and the direction of travel is the other way. There is an imbalance that retailers would like to see addressed, and a lot of it is about that, too.

Q53 **The Chair:** What would replace business rates, Mr Weedon, in your scheme?

Michael Weedon: A lot of people have talked about coming up with a magic online sales tax. We do not support that, if only because a lot of small businesses are adding online sales. I am talking not just about retail, but about fast-food shops and so forth that deliver to you. They are town centre operators in just the same way, and they are multichannel operators in just the same way as well. Because the tax underpins the income of local authorities and that is what it was invented to do, we feel that it should have a large element of place-based derivation. It should come from where you are.

The interesting thing about it is that it was designed in the late 1980s for 1990 when the great retail park expansion had not happened, and there was no e-commerce in this country, until 1995. Somebody will probably correct me about that. It has not kept up with those changes. There are several hundred different ways of valuing premises in the VOA rating manual. I recommend it for anyone who finds it difficult to get to sleep. It is a fascinating document and it shows that some types of business location, some types of business, are rated and valued in a different way.

Pubs have turnover as part of their valuation, whereas for a normal shop it would just be on nominal rent. The same is true of petrol forecourts because a certain level of profitability is assumed in their turnover. An online fulfilment business is rated pretty much at warehouse level rents per square metre; it might be £10 or £15 per square metre. Looking at a local street in a small provincial town, the nominal rent there is £365. You cannot change the evidence about what rents are because that is what the thing is based on, but you can change the way in which the rating is constructed to reflect the turnover and, it is implied, the profitability of the businesses operating in those locations. We think that tax needs a review, but we think that the place-based element of it continues to make some sense.

The Chair: As far as I am aware, local authorities do not receive the business rate. They collect it.

Michael Weedon: They get it back.

The Chair: They get grants back, which are not based on what they contribute. It is wrapped up, effectively, in a government grant that is needs-based rather than based on what you generate, otherwise Westminster and Kensington and Chelsea and places like that would get huge amounts of money and keep it, which would have been nice when I was a member of Kensington and Chelsea council, but I am afraid it did not happen.

The idea that there is a strong connection between business rates and locality was deliberately broken by Mrs Thatcher; the feeling at the time when this was set up was that local authorities were milking businesses where they could and putting excessive burdens on them because there

was no business vote left any more. That was the other thing that went. Businesses used to have a vote in the dim and distant past, until the 1920s or the 1930s, I think. The system had all broken down. The 1960s, was it?

We are going to come to our last question, which is from Baroness Janke. Sorry, Mr Wilson, did you want to say something?

Graham Wilson: Business rates are a big issue for markets. I mentioned the financial climate in which markets operate. Local government legislation currently has a restriction on a local authority providing business rates relief in respect of a property for which it is responsible. This means that a local authority operating a market cannot give relief for business rates, which was particularly—

The Chair: This would be a non-street trading market.

Graham Wilson: If the market is operated under street trading, business rates do not apply, which is an anomaly. You can have a market operating in one location with no business rates and a market operating in another locality where business rates apply. We think that needs to be looked at.

The situation came particularly to the forefront of our attention during the pandemic when the Government gave lots and lots of business rates relief to retailers, but markets continued to have the burden of business rates relief because of the requirements of the legislation, and it is something that we pursue with the Local Government Association to try to get a change in the legislation. The Government made an exception in respect of public conveniences and made them no longer responsible for business rates. We would like some sort of consideration given to the position of markets, given their role in the local community. Something like £23 million a year is paid to the business rate account from markets. We would like the Government to look at amending the legislation to provide some flexibility to local authorities.

The Chair: Thank you.

Q54 **Baroness Janke:** My question is about the BIDs, the business improvement districts. I would be interested to hear your views on the contribution they make and how you evaluate that contribution.

The Chair: Let us start with Ms Onita this time. I do not think you have kicked off yet.

Laura Onita: I do not know a lot in great detail about this particular topic.

The Chair: Sorry.

Laura Onita: No, that is fine. I can come back to you, but I do not cover it extensively.

Michael Weedon: Do business improvement districts improve outcomes for retailers? Yes, and the evidence is that they keep voting them back in. The vast majority are renewed after their five-year term has come up. The retailers I know who work in BID districts are very strongly in favour of their BID because they feel that they are taking their fate rather more in their own hands; it is something they can do about the area outside their front door. The things that they do well are improving the public domain and promotion of the BID area. I have not seen any evidence, which could just be ignorance, that suggests to me that that is not the case across the country with a couple of hundred retail BIDs; there are other types of BIDs, but I think retail BIDs in particular are popular and they do a good job.

Q55 **Baroness Janke:** There has been criticism that they focus too much on commerce and retail at the expense of alternative uses. What is your view on a move to make them community improvement districts rather than business improvement districts?

Michael Weedon: I have never drawn a distinction between those two things. The business and the community in town centres tend to go together. BIDs that are smart will represent all the businesses and other organisations in their area. In many cases I have heard the argument that BIDs should not represent businesses that are currently exempt from business rates because they are not paying the precept. They know when you talk to them—I know some BID managers—that it is the whole area. I come back to it: it is the ecology of the area that is important and keeping the livelihood of that together. No, that criticism is not my experience. They take a broad view because they cannot afford to take a narrow view.

Graham Wilson: We have found in some places that BIDs have taken over the responsibility of providing markets. I spoke earlier about the increasing reliance on local authorities and the disappearance of private operators. BIDs are beginning to emerge as a potential alternative provider of markets. BIDs do very well in staging special markets and events to bring people into the centre. Our experience of the BIDs that have become members of our organisation is that they are doing a very good job of running the markets in their area. We would certainly welcome more dialogue and more involvement of BIDs in the market sector.

Baroness Janke: My experience has been that they have brought some real energy into particular areas and helped to improve visitor numbers. On the other hand, there is a certain amount of negativity, in that they do not necessarily speak for all the people in the area. Your overall experience is that they are good and worth keeping. Good. Thank you.

The Chair: Are you aware of any conflicts between BIDs and residents and occupants of a particular area? Many of these locations, although they are retail at ground floor, are not retail above ground floor. They might be offices or they might be other small businesses. They might even be residential and those people are not participants in the BID

process.

Michael Weedon: I am not aware of any conflict. I can see that theoretically there might be some, but I could not give you any examples.

The Chair: We are very grateful to you. Thank you very much indeed for coming and giving your time today.