Written evidence submitted by the British Retail Consortium (BRC) (PEG0098)

Key points and recommendations:

- **Government should provide targeted and time-limited support for commercial rents to accompany its Code of Practice for landlords and tenants, reducing the risk of unnecessary insolvencies and job losses.**
- **The re-instatement of 100% business rates in April is highly likely to be at odds with post-Covid trading conditions, and thus be unsustainable. The Chancellor should announce the following changes at the autumn Budget, to be applied from 1st April 2021, as part of the Government's review into the business rates system:**
  - **Continuation of business rates relief for the retail industry**
  - **Abolition of downwards transitional relief**
  - **Freezing of the multiplier**
  - **Introduction of an improvement relief to incentivise investment in property**
  - **More resourcing for the Valuation Office Agency to improve processes**
- **Government must be prepared to make further interventions to boost consumer demand, as covid-19 continued to suppress confidence and footfall. This can and should include extending the temporary VAT cut to retail.**
- **Remove the 24-month expiry date on levy funds and create greater flexibility to utilise levy contributions to drive the recovery, moving towards a flexible skills levy for shorter, high quality courses and qualifications.**
- **On trade, the Government should work for a fair deal for consumers; securing a tariff-free deal with as little friction on movement of goods as possible, ready for the UK's exit from the transition period at the end of the year.**
- **Government should work with retail on measures to address climate change and waste, and support the industry to meet its ambitious Net Zero goals.**

About the BRC

The BRC is committed to ensuring the retail industry thrives through a period of transformation that predates the coronavirus pandemic and the period of uncertainty brought about by the pandemic. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership comprises over 5,000 businesses delivering £180bn of retail sales and employing over one and a half million employees.

Introduction

We welcome the Chancellor's support for training and employment, announced in his recent economic statement, and time will tell if the measures are successful in supporting industry and boosting consumer demand. Footfall remains well below pre-crisis levels, with consumers still cautious and elements of the economy still to reopen, so the Government must be prepared to take further actions to boost confidence if required.

This is also an opportunity to address some of the longer-term structural problems facing industries like retail. Even before the pandemic, the industry was going through a significant transformation, driven by fast changing consumer behaviour and technology, along with an ever-growing cost burden from red tape and taxation. The covid crisis has accelerated some of these trends, whilst also depressing demand and pushing retailers' cashflow to the limits, as they try to maintain staffing levels and property portfolios. The Government has a huge opportunity now to address some of the ever-growing burdens and archaisms, from the rents and the retail property market to a broken business rates system and creating a more flexible skills and training environment.

1) ADDRESSING PROPERTY COSTS, RENTS AND BUSINESS RATES

As the covid crisis goes on, rents remain one of the top concerns for retailers. Landlords received just 41% of rents demanded from retail tenants in the March quarter and this dropped to 35.5% in the following June quarter. The impact of the crisis has had a profound impact on the ability of many retailers to meet rent obligations, and whilst most retailers and landlords come to amicable agreements over rents, there will always be instances where such agreement is not possible. The Government's new code of conduct goes some way towards ensuring negotiations do, at least, take place, but it is not a solution in and of itself to the problems facing retail and hospitality, in particular.

There is a serious risk that, without more concrete measures from Treasury to tackle property costs in the aftermath of the initial crisis, the value for money case for the Government's other interventions, particularly the CJRS, will be undermined, as many of the businesses supported by these measures are made insolvent in the autumn due to unsustainable rent demands. This would have a huge knock-on impact throughout the property ecosystem, as tenants go into administration, landlords default on debt obligations, and pension funds see threats to their income, all of which could result in thousands of jobs being lost. These are jobs disproportionately done by those with entry-level qualifications, women, and those with caring responsibilities. Once these go, they will take a long time to come back, and some may not return at all. This will have a particularly negative effect in parts of the country with a relatively higher proportion of the workforce working in retail, such as the North and North West of England.

We, along with BPF, UK Hospitality and Revo, have have called for a targeted and time-limited programme of rent support to accompany the operation of the Code of Practice and support those commercial tenants worst hit by the crisis and unable to find a negotiated solution with their landlord. The scheme would be cost effective to the exchequer and would avoid unnecessary insolvencies and job losses in the autumn, when tenant protections against aggressive debt enforcement by landlords are due to expire.

Separately, in the short-term, the Treasury could consider introducing tax credits, where landlords who reduce or waive rents in return for a partial reduction in future tax liabilities, in order to incentivise meaningful negotiations between landlords and tenants. A similar system has been adopted in Belgium.

The retail industry welcomed the Chancellor's announcement of the business rates review in his Budget in March and was pleased by the extent of the terms of reference. The review now needs to push ahead at pace and the Chancellor should use the opportunity of the business rates relief for retail, hospitality and leisure to produce some short-term fixes that can be announced in his autumn Budget, ready for implementation at the end of the relief period in April 2021. The Treasury should avoid a cliff edge moment in April, whereby retailers would find themselves returning to 100% of their business rates liability, particularly given revenues and incomes are unlikely to have recovered fully. Measures could include:

- Extending the business rates relief currently in operation for the retail industry
- Scrapping downwards transitional relief
- Freezing the multiplier until more fundamental reform of the system takes place
- Introducing an improvement relief to incentivise greater investment in property improvements
- Better resourcing of the Valuation Office Agency to improve procedures and increase efficiency

2) BOOSTING CONSUMER DEMAND

The Chancellor's VAT cut for hospitality and tourism will be important in reviving these sectors, and the 1.8 million people who work in them. However, it was disappointing that the Chancellor did not extend this measure to the retail industry and the three million people it employs. It was a missed opportunity, as available evidence suggests that consumer confidence and demand will take a good deal of time to bounce back, and the Government should retain the option of extending the VAT cut to retail in the Autumn Budget should it prove necessary to do so.

The Government should also keep their options open on other short-term measures that may help to stimulate demand over the summer and into the autumn, should consumer activity remain subdued. These should include:

- A temporary tax cut for lower income workers who do not have the same cash reserves as wealthier earners who have been able to save; many have been on furlough or on lower income.
- Reforms to planning rules to allow physical stores to be more agile in responding to the demands of their customers. Flexibility could be provided either by amending the Use Classes Order to merge Uses A1 (shops), A2 (professional services) and A3 (restaurants and cafes) to a single 'High Street use' or enabling the existing A1 use to switch flexibly between shop use and storage & distribution (B8). Retailers could then better tailor stores to customer needs and target investment more effectively, enabling 'omnichannel' retailing as shop space could also be used as a hub for online order fulfilment.

- Reduction or removal of car parking charges for a fixed period; evidence shows that where parking charges are reduced or eliminated, footfall and transactions in local shops increase. Boosting trade in this way encourages shoppers to use local high streets and town centres, increasing the viability of stores and retail areas, and reducing the likelihood of empty shops. This is an important part of local government financing, so we suggest that reductions or removals of charges are done only for a set period of time on a trial basis, given a more vibrant and better occupied high street would see local authorities benefit from greater tax take in the form of business rates and rents on council-owned premises.

We are also keen to work with Government to develop a broader strategy for retail that creates a more joined-up policy-making environment for the industry as it navigates the ongoing transformation being driven by changing consumer behaviour and technology, rising cost burdens and more recently the covid crisis itself.

3) SUPPORTING JOBS AND SKILLS DEVELOPMENT

The retail industry is undergoing a period of significant transformation driven by technological innovation and external financial pressures. The number of jobs in retail is falling, however we expect the jobs that remain to become higher skilled. Retailers' ability to upskill and retrain is therefore critical to the future success of the industry. Retail is a diverse industry and the apprenticeship opportunities are extremely wide. Retailers are developing the workforce's core retailing skills through the Retail Standards while also developing specialist digital and data skills, management skills and building their engineering and manufacturing capabilities.

Apprenticeships at all levels are important to the retail industry and it is estimated that the industry pays in around £150m per annum through the Apprenticeship Levy. As an industry that provides a significant number of jobs to individuals who experience high levels of economic exclusion, apprenticeships at Level 2 are of particular importance. The current retailing environment and the rapid transformation that the industry is undergoing has put a sharp focus on upskilling and building internal capability in areas such as data and technology. As the industry continues to transform and the skills requirement of retail jobs changes, apprenticeships provide a real opportunity to support existing employees to move into new roles within a retail organisation.

Investment in the skills of the workforce is a long-term commitment. Retailers are increasingly concerned about the future funding for apprenticeships beyond 2020. This has been exacerbated by the government's admission that the system is under budgetary pressures. Future funding must be secured for all age apprenticeships across all levels to support in work progression, social mobility and to enable industries such as retail to transition to a higher skilled, more productive industry.

While apprenticeships are a valuable form of in-work training, they are not the only form of in-work training retailers deliver or would like to deliver. Eight in ten of retailers pointed to greater flexibility to spend levy funds on non-apprenticeship training as a necessary reform to enable them to meet their training needs.

The recently launched National Skills Fund is an opportunity to think strategically about the future of skills funding. The retail industry recognises the importance of investment in skills and understands the need to continue contributing to a training levy. But the Government must look beyond apprenticeships to support industry to meet its skills needs. The Chancellor's announcement to incentivise apprenticeships is a welcome start, but the next step must be to carry out a wholesale review of the apprenticeship system with the aim of creating more flexibility to enable the Apprenticeship Levy to meet the skills needs of retailers. As retail transforms and evolves, it is essential that those working in the industry, now and in the future, have the digital and technological skills to get ahead.

As the changing jobs market will mean many employees need to retrain, it is essential that Government support provides the right vehicle to enable this to take place effectively. The existing apprenticeship system will not on its own provide an effective vehicle for this retraining. The National Skills Fund must support workers in retail who are vulnerable to automation and technological change to acquire the skills they need to progress in their careers.

4) SECURING A FAIR DEAL FOR CONSUMERS

With the covid crisis subsiding and the economy reopening, retailers are increasingly turning their focus back to the UK's future trading arrangements with the EU and other partners. The biggest concern now for the industry is the fast-approaching end of the transition period and the need to secure a fair deal for consumers with the EU before the end of the year. This means a tariff-free deal with as little friction from non-tariff barriers as possible in order to maintain the quality and choice of goods consumers and keep prices down.

On tariffs alone, without a deal consumers will be paying more for the goods they buy in stores. The average tariff on imported food will be 20% without a deal and of UK food imports almost 80% comes from the EU. Clothing and other non-food imports coming from the EU would also face new tariffs of anything up to 12% in this scenario. Our new briefing document, "Fair Deal for Consumers: Why Tariffs Are Bad News For UK Consumers", sets this out in greater detail and breaks down some of the categories by providing examples of new tariffs on specific staple products.

Equally, new non-tariff barriers would have serious implications on the flow of trade. In the short-term some unilateral mitigations will help to keep goods moving, but not as seamlessly as they do at present. Ultimately a deal is needed that avoids the worst restrictions and obstacles to the movement of goods and, given the cyclical nature of retailers' supply chains with the EU and the risk of disruption at key ports, is needed quickly.

Given the highly competitive nature of retail, the industry cannot absorb all these increased costs, meaning the public would face higher prices from 1st January 2021. With the coronavirus crisis already having a major impact on consumer spending, it is more important than ever that Government agrees a deal that does not lead to price increases in shops and online.

The Government's UK Internal Market White Paper is also an important moment in this debate. Consumers and the economy as a whole benefits enormously from the UK's largely unfettered internal single market, as economies of scale and regulatory consistency helps reduce business costs which in turn keeps down shop prices and provides greater consumer choice. Increasingly differential approaches towards public policy in different parts of the UK may well offer new flexibilities, however it also risks a more fragmented environment for firms operating across the UK.

On those key policy areas of relevance to retail we are keen to see the fullest possible alignment between the UK and devolved administrations, with them working together to minimise any administrative complexity, frictions and costs which apply to firms.

5) DRIVING GREENER AND FAIRER GROWTH

It is essential that the UK uses the recovery from the covid crisis to create a more sustainable and green economy. It is for that reason that the retail industry is working together to produce a carbon roadmap to plan for a Net Zero future, ahead of the Government's 2050 Net Zero target. We want to work with Government to drive rapid decarbonisation across not only our operations, but also our supply chains and customer base. Our roadmap will identify a number of policy asks that can help the industry and its supply chain overcome barriers to Net Zero, from supporting research to implementing infrastructure.

The crisis has also highlighted issues with global supply chains. A number of retailers are keen to source more garments from the UK, however they've been prevented from doing so by ongoing reports of labour exploitation in UK factories. The Government must address these concerns and enforce legislation robustly to guarantee the standards consumers expect and protect workers in the supply chain. A licensing scheme of UK garment factories would substantially raise standards and attract more retailers to source from the UK. Separately, Government should look to boost investment in textiles recycling infrastructure through innovation funding in order to improve recycling rates and help build a more circular economy.

The post-Covid-19 economy has significantly changed and business and consumer priorities have shifted, for example, we have seen a huge increase and reliance in online purchasing. These changes have created an opportunity for a radical re-think of policy which need to be reflected as we shape our greener future and build a more circular economy, especially with the Resources and Waste Strategy. For example: with more purchases being made online do we need to consider a more innovative, technology-based approach to a DRS making it easier for people to recycle from home and community settings?

We believe it is essential that the Government rapidly reviews the Resources and Waste Strategy so that it truly delivers for consumers, industry, and society as a whole. We now require a strategy that is relevant to future production and retailing, maximises innovation and delivers the environmental outcomes we all want to achieve.

Finally, it has recently been suggested that a tax on deliveries may be considered for environmental purposes. The industry would urge caution on this front. Online retail has been a lifeline throughout the coronavirus crisis, ensuring people have been able to get all the things they need and 'non-essential' retailers have been able to keep trading. Business taxation needs to be reviewed in the round to ensure it is fit for purpose. Retail is already an overtaxed industry and any additional taxes will impede its chances of recovery from the crisis. There is also a risk that such a tax would have the opposite effect to its stated aim, driving more traffic to physical shopping areas as people sought to avoid paying the increase price for goods that the tax would likely create.

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