



House of Commons

Business, Innovation and Skills
Committee

The Retail Sector

Eighth Report of Session 2013–14

Volume I



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Volume I: Report, together with formal minutes

Volume II: Oral and written evidence

Additional written evidence is contained in Volume III, available on the Committee website at www.parliament.uk/bis

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Business, Innovation and Skills Committee

The Business, Innovation and Skills Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Business, Innovation and Skills.

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Mr William Bain MP (*Labour, Glasgow North East*)
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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/bis. A list of Reports of the Committee in the present Parliament is at the back of this volume.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee are James Davies (Clerk), Amelia Aspden (Second Clerk), Peter Stam (Committee Specialist), Josephine Willows (Committee Specialist), Ian Hook (Senior Committee Assistant), Pam Morris (Committee Assistant).

Contacts

All correspondence should be addressed to the Clerk of the Business, Innovation and Skills Committee, House of Commons, 7th Floor, 14 Tothill Street, London SW1H 9NB. The telephone number for general enquiries is 020 7219 5777; the Committee's email address is biscom@parliament.uk

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Summary

British retail is a success story and is continually evolving, incorporating new forms of shopping. Amidst the talk of the decline of the retail sector, our evidence highlighted the fact that the retail sector as a whole is buoyant, with growing opportunities. It is also a source of employment for around 3 million people.

Business rates are a substantial cost to doing business in the United Kingdom, and are one of the highest forms of local property tax in the European Union. Our evidence overwhelmingly cited the issue of Business Rates as one of the principal threats to the survival of existing retail businesses in the High Street. It was also cited as the biggest obstacle to new retail businesses starting up, not only for 'bricks and mortar' shops.

We conclude that Business Rates, in their current form, are not fit for purpose. The Government needs to carry out a wholesale review of the current Business Rate system. While this is a matter for the Treasury, the Department for Business, Innovation and Skills needs to play a leading role in that review, to reflect the needs of businesses. In particular, it needs to impress upon the Treasury and the Department for Communities and Local Government the importance of the retail sector as a driver of economic recovery. This is especially pertinent for small and medium-sized businesses.

This review of the Business Rate system should include: whether retail taxes should be based on sales, rather than on property; whether the retail sector should have its own form of taxation, calculated in a different way from other businesses; and how frequently the revaluation of Business Rates should take place.

The Government's Retail Strategies, which were the starting ground of our inquiry, are full of good intentions. However, they will be undermined unless the key issue of Business Rates is addressed.

The responsibility for Retail is shared by both the Department for Business, Innovation and Skills, and the Department for Communities and Local Government. While there are benefits to be gained from this approach, we believe that the BIS Department should be the senior partner in this relationship. It must take responsibility for the strategic plan for the future of the retail sector. Without this leadership, the many welcome initiatives will not deliver on their ambitions.

Glossary/acronyms

Automated Teller Machine (ATM): a cash machine.

Bricks and Mortar: a traditional retail channel involving any physical outlet, including the High Street, retail parks, shopping centres, PopUp shops.

Business Improvement Districts (BIDs): a defined area within which businesses pay an additional tax to fund projects within that district's boundaries.

Business Rates: a property tax paid by businesses, including retailers, according to the rateable value of the property from which they run their business multiplied by 'a multiplier'.

Click and Collect: a method of shopping over the Internet, and then picking up the goods at a physical outlet.

E-Commerce: the purchase and sale of goods and services over the Internet.

High Street: a retail channel specifically involving a physical (Bricks and Mortar) outlet in a town centre (i.e. not out of town).

Local Enterprise Partnerships (LEPs): Established in 2011 by the Department for Business, Innovation and Skills to help promote local economic priorities. The 39 Local Enterprise Partnerships are voluntary partnerships between local authorities and private businesses.

M-Commerce: the purchase and sale of goods and services through mobile devices.

Multichannel: a retail business that trades through multiple channels in combination, such as physical shops; e-commerce, m-commerce, telephone, television, radio, and catalogue selling.

Omnichannel: a development of multichannel retailing, focusing on a more seamless approach to retail through all available shopping channels, delivered by specialised software.

Out of Town: shopping developments situated outside a town or city, often containing several chain stores, with free parking.

PopUp Shops: typically small, temporary, retail outlets, leased on a short-term contract.

Portas Pilot Towns: currently 27 towns, which have received a share of Government money following the Portas Review, for High Street redevelopment.

Portas Review: a review by Mary Portas into the High Street, commissioned by the Government and published in December 2011.

Retail Park: an out of town retail development with multiple, separate stores.

Retail Pathfinder: LEPs that develop and pilot retail initiatives, arising from the Portas Review and the Government's Retail Growth Strategy, of which Gloucestershire LEP was the first.

Retail Policy Forum: a forum set up by BIS, comprising retailers and Government representatives, for discussion of policy issues affecting the retail sector.

Town Teams: a group of local stakeholders in a specific town who work together to develop a shared view and plan for the future of that town.

Valuation Office Agency: An executive agency of H M Revenue and Customs, which provides the Government with the valuations and property advice required to support taxation and benefits, including Business Rates.

1 Introduction

One thing is clear, that society has been interacting in social hubs around commerce since time began and human nature will continue to desire this in some form. [British Business Improvement District]¹

1. British Retail is a global success story. However, it is continually evolving, and the rate of change has increased dramatically over the past 40 years. The traditional High Street has seen the emergence of and competition from mail order, supermarkets, shopping centres, megastores, out of town retail parks, and, most recently, digital retail channels in the form of e-commerce and m-commerce. The retail sector has been affected, like other industries, by the economic downturn, but it will always survive in some form, as long as there are consumers wanting to purchase products. But does the High Street have a particular role, over and above the transaction of goods, in contributing to the physical fabric and the life of our town centres and villages? Do we need to ensure that the High Street is not swept away by the latest trends in consumer activity?

2. When discussing the retail sector, there is much talk of decline. However, there are many positive aspects of this constantly-changing sector. Indeed, Alex Gourlay, Chief Executive of the Health and Beauty Division of Boots, told us that communicating a negative image of retail can adversely influence the sector, and that it is important to change the perception:

From ‘the high street is dying’ to the opportunities of a fantastic industry in the UK—it is probably the best retail industry in the world—and allowing people to celebrate that, while moving to develop an international strength to drive our great brands, products and services in international markets. It is a communication issue.²

3. David Owen, Chief Executive of GFirst Local Enterprise Partnership, also stressed the need to instil a sense of passion in the experience of shopping, by making it a pastime that is more than simply buying things:

The challenge as we see it is more about the definition of what retail is. We see retail as a customer experience that goes beyond shopping and purchasing goods to going to cinemas, restaurants or cafes. It is about injecting passion into the high street and town centres, and injecting an experience.³

Despite the many challenges facing it, the retail sector is a growing sector. Fiona Wilson, from the Union of Shop, Distributive and Allied Workers (USDAW), told us that in the four-week period ending in May of 2013, “£27.1 billion was spent in the retail sector, so it is a growing and profitable sector”.⁴ She went on to say that the workforce is the greatest asset of the retail industry.⁵ USDAW’s written evidence stated: “We are the major union

1 Ev w22

2 Q207

3 Q232

4 Q104

5 Q104

organising in the retail sector. Our retail membership currently stands at 343, 000, up by 20,000 over the last two years”.⁶ Given that the sector employs around three million people,⁷ and has seen radical change with the multichannel developments, it is important to ensure that the right skills and training opportunities are provided. Mike Davidson, Head of Retail Operations at Land Securities spoke up for career opportunities in the retail sector: “If one of the things that comes out of this is that retail is put on the map as a career choice with future potential, that would be hugely advantageous in the process”.⁸

4. Britain leads the world in the retail sector, and we hope that it will continue to thrive. If the recommendations in this Report are accepted, we are confident that the High Street retail sector, specifically, will also have a bright future. We launched our Inquiry into the Retail Sector in the Spring of 2013, in response to the Business, Innovation and Skills *Retail Strategy*, which was published in October 2012. It outlined the Department’s support for the retail sector, at international, European, national and local levels. The Department then published a further Report, *A Strategy for Future Retail* in October 2013. Our inquiry asked for written comments on the initial Strategy. However, we received limited evidence concerning international and European retail issues; the bulk of our written and oral evidence concentrated on national issues. Furthermore, the majority of those who contributed to the inquiry wrote in detail about the burden of Business Rates. The Report, therefore, will concentrate primarily on the issue of Business Rates, in the context of the retail sector. It does not say that the High Street is being destroyed by the growth of digital and multichannel retailing; they are all part of a buoyant retail sector, which is finding a new balance. But the High Street landscape is evolving and is likely to involve a more diverse mix of use, with housing, leisure, office, retail, and community space.⁹ In this new evolving landscape, leisure facilities, restaurants, and coffee bars will also play an important part. However, for shops to be a part of that future, there must be an urgent review of Business Rates for retail premises. The Communities and Local Government (CLG) Committee has explored issues around the Portas Review and the High Street. That evidence informed our consideration of many issues relating to retail. We hope that issues raised in this Report will be of interest to the work of the CLG Committee.

5. We started the inquiry with a breakfast meeting hosted by Google, with a wide range of retail representatives. The Committee received 40 pieces of written evidence, and held five oral evidence sessions—four held in Westminster and one held at the Guildhall in Gloucester. We would like to thank all those who submitted written and oral evidence. We also visited Gloucester town centre, and Boxpark PopUp Mall in Shoreditch; and we participated in the PopUp Summit at County Hall, London. We would like to thank the organisers and participants of those events, which were invaluable in increasing our understanding of different aspects of the retail sector.

6 Ev 193

7 Ev 115

8 Q325

9 For example, Ev 140 (The Government); Ev w222 (BIDs)

2 The Portas Review and the BIS Retail Strategy

The High Street still has a massive value to companies, which we should not underestimate. [Brandon Lewis MP, Minister for DCLG]¹⁰

The Portas Review

6. The Prime Minister commissioned Mary Portas, a retail expert and broadcaster, to carry out an independent review of the retail sector, with specific reference to the High Street. *The Portas Review: an independent review into the future of our high streets* was published in December 2011, and contained 28 recommendations.¹¹ The recommendations covered various issues concerning retail in the High Street, including: the setting up of Town Teams; the proper management of High Streets; the empowering of Business Improvement Districts (BIDs) to take on more responsibilities; and the setting up of pilots to test out the different strategies for High Street regeneration. The Portas Review also had three recommendations concerning Business Rates:

- Government should consider whether business rates can better support small businesses and independent retailers;
- Local authorities should use their new discretionary powers to give business rate concessions to new local businesses;
- Government should make business rates work for business by reviewing the use of the RPI as the means of uprating the business rates multiplier each year, with a view to changing the calculation to CPI.¹²

7. According to the Government's evidence, all bar one of the recommendations in the Portas Review were accepted by the Government in its document *High Streets at the Heart of our Communities: the Government's response to the Mary Portas Review*, published in March 2012.¹³ They did not accept the linking of Business Rates to CPI. In evidence to the Communities and Local Government Committee, it was obvious that Mary Portas had wanted the Government to go further:

[...] if we are going to get businesses back on to the High Street, whether they are new businesses or some of the bigger businesses, we need to have some incentives, and Business Rates seem to be the biggest stop for growth at the moment. [...] If nothing is done about Business Rates, we will not see the development of new and exciting ideas. If we look at this country, one of the things that we are about is great innovation. If you look at the history of retail even, so much came from this country, and I think we would be suppressing the new green shoots that would come into it.

10 Q394

11 Mary Portas, *The Portas Review: an independent review into the future of our high streets*, December 2011

12 ibid

13 Ev 118

Also, some of the bigger businesses that would look to come back onto it will not be coming back.¹⁴

Portas Pilots

8. Evidence submitted to our inquiry both supported the intentions of the Portas Review and the resulting 27 Portas Pilots that benefitted from Government money. However, the majority of evidence we received argued that the review did not go far enough. Intu Properties plc wrote that it did not think that the Portas Pilot generated significant results.¹⁵ F Hinds, a family-owned and run jewellers, wrote that “the Portas Review and other initiatives are welcome and helpful, but it is hard cash and profit and loss which will dictate what happens”.¹⁶ The Association of Town and City Management (ATCM) wrote of the need to go beyond the Portas Review:

The Portas Review is likely to be seen as a watershed moment in town centre retailing, taking problems and solutions which have been well rehearsed from within the industry and communicating them to a wider audience. However, the UK Government, Parliament, and indeed, the BIS Select Committee, must ensure the focus is wider than the solutions offered in the Portas Review alone.¹⁷

9. Brandon Lewis, Minister for DCLG, said that the “whole point” of the Portas Pilots was that they bid for money for specific projects and that the funding delivers those projects.¹⁸ The DCLG’s paper *The Future of High Streets: Progress since the Portas Review*, published in July 2013, highlighted the amount of money allocated to the Pilots:

27 Portas Pilots were set up last summer, 24 supported by Government and a further 3 backed by the Mayor of London. Government gave £2.3 million to the areas involved in the programme as well as a package of support.¹⁹

10. The British Property Federation (BPF) welcomed the Portas Review, but wrote that “much of the initial focus has been on the short-term and arresting decline but we feel a lot more work is needed to realise the long term aspirations of the pilots and town teams”.²⁰ It described the work that it had done with the Portas Pilots, and highlighted the lack of preparedness on the part of town teams:

As a key industry stakeholder, the BPF has been engaged with the pilots from the early stages and has worked with other industry bodies, including the British Council of Shopping Centres, to provide pilots with free support and advice. However, take up of advice has been sporadic largely due in part to the unpreparedness of the town teams and a lack of understanding on how to translate their ideas into a strategic

14 Oral evidence taken before the Communities and Local Government Committee on 2 September 2013, HC 612-i, Qq 46 and 48

15 Ev w54

16 Ev w45

17 Ev 158

18 Q417

19 DCLG paper, *The Future of High Streets: Progress since the Portas Review*, October 2013, page 5

20 Ev 170

business plan which considers the short, medium and long term vision of the area. A freedom of information request by the *Independent* newspaper indicated that only a small proportion of the £1.2 million awarded to the pilots has been spent and whilst we agree that the emphasis should be placed on communities harnessing and combining their energies, we do feel that it highlights a lack of clear planning and support.²¹

11. Supplementary evidence sent in March 2013 from Paul Turner-Mitchell, a retail expert, also highlighted the low percentage of money that had been spent to date:

Funding was awarded for pilots that demonstrated a ‘transformational vision’, but a breakdown of the money spent shows that authorities have spent very little of their award on delivery and the bulk of it on bureaucracy and administrative costs. Examples include travel and hospitality for DCLG meetings, project coordinator salaries, charges for business representatives attending town team meetings and backdated claims for putting together Portas Pilot bids including video production.²²

Paul Turner-Mitchell submitted the results of his Freedom of Information requests, stating “Freedom of Information requests reveal that of £1 million awarded to the first 12 pilots last May only £135,000 has been spent”.²³ These figures are no longer current, but they are the most up-to-date figures which are publically available:

Pilot	Amount Received	Amount Spent
Dartford	£79,500	£17,251.04
Liskeard	£100,000	£5,195.72
Market Rasen	£98,599	£32,520.00
Stockton	£92,000	£4,755.00
Bedford	£51,260	£2,346.40
Bedminster	£100,000	£37,678.71
Stockport	£100,000	£0.00
Croydon	£100,000	£4,950.00
Newbiggin	£94,300	£7,870.18
Margate	£100,000	£111.47
Wolverhampton	£100,000	£11,817.00
Nelson	£100,000	£11,477.00
Total	£1,115,659	£135,972.52

Ev w83 Paul Turner-Mitchell, as of March 2013

12. In September 2013, when Members of the Communities and Local Government Committee questioned Mary Portas on the fact that only 13% of the Portas Pilot money had been spent, she replied:

21 Ev 170

22 Ev w82

23 Ev w82

There should have been real guidance from Government on what a Town Team should be and the mix that would create a really powerful Town Team. There should have been clear guidance on what that was—where you pull together councils with trade associations with landlords with retailers with people who are all the stakeholders and residents. [...] There should have also been guidance on where and how was the best way to spend money. A lot of these people are just apprehensive on what to do with it. For some of them, in hindsight, when I visited the towns, it took about six months for the money to come through.²⁴

13. We questioned the DCLG and BIS Ministers in October 2013, on how much of the Portas money had been spent by local authorities, and who was auditing the funds. Brandon Lewis MP replied that all the money has been allocated but “if you do not mind, I will come back to you to make sure you get exactly the correct figure for that. I will get a note to the Committee”.²⁵ As of February 2014, we had not received a note from the Minister.

14. *The Government allocated £2.3 million to fund the Portas Pilots, yet has not been able to provide evidence of how or indeed whether that money has been spent by local authorities. In its response to this Report, the Government should include how much of that money has been spent, as was promised to us by the DCLG Minister in October 2013. There is no readily-available data on the allocation of the funds, and, as far as we are aware, no organisation is auditing the funds. While we appreciate the fact that the Department for Communities and Local Government is responsible for this funding, the Department for Business, Innovation and Skills has the policy lead for retail and must ensure that data is made available on whether and how the Portas Pilot funding has been spent. These are public funds and, therefore, the use of this money needs to be assessed for value for money, and effectiveness. Together, the BIS and CLG Departments must decide how this assessment is carried out.*

BIS Retail strategy

15. Just under a year after publication of the Portas Review, the Department for Business, Innovation and Skills outlined its approach to the retail sector in the *BIS Retail Strategy*, published in October 2012, followed by *A Strategy for Future Retail*, published in October 2013. The Strategy outlined the contribution that the UK retail sector brings not only to the economy, but to the wider community, stating that:

The UK retail sector is big, complex and very diverse. It includes world class international companies, innovative independents, and many retailers struggling to survive in an extremely competitive environment with rapidly changing consumer habits. [...] Beyond its purely economic value as a sector in itself, retail underpins local economies and plays a vital role in delivering public policy (and providing social value) in areas such as public health, employment and skills, environmental sustainability and community cohesion. Retail is often considered to be a sector in need of less attention than other parts of industry: it ‘just happens’; is not mobile;

²⁴ Communities and Local Government, Committee, *High Streets and Town Centres*, Monday 2 September 2013; Q6

²⁵ Q417

does not participate in overseas activity; and is not subject to foreign competition. None of this is true.²⁶

16. It also highlighted the need for better regulation at a national level, by disseminating knowledge transfer of the retail sector and by undertaking a retail STEM skills gap analysis. It focussed on local issues, stating that the Government will:

Work with local partners to better understand market conditions and challenges and to undertake activities that maximise retail’s contribution to growth in local economies through identifying opportunities and sharing best practice.²⁷

17. The first paper, although only 10 pages long, had the ambitious aim of describing what the Department was doing to “support retail growth in the short term at international, European, national and local levels”. The succinctness of this paper was not lost on the Association of Licenced Multiple Retailers:

The BIS retail sector is an extremely concise framework document outlining five workstreams through which the Government aims to support the retail sector. Given the economic importance of the retail industry—and the role of eating and drinking out within it—we are surprised at the brevity of the document.²⁸

18. The National Federation of Retail Newsagents welcomed the Strategy, but were disappointed that it featured few of the practical proposals set out in its own submission, such as Business Rates, competition, planning, and alcohol pricing:

Working with stakeholders to ‘disseminate findings’ or ‘share best practice’ or promoting other policies, such as the Local Enterprise Partnerships, does nothing in itself to tackle the genuine issues faced by those who literally work on the shop floor.²⁹

19. In the retail strategies, the Government’s answer to tackling the demise of the High Street is to shift responsibility onto local areas, local authorities and local communities to use their powers as they see fit to revitalise their local High Streets. Some help is given from Government funds—such as funding for the Portas Pilots—but the majority of help is from local government. When confronted with issues concerning local retailers suffering under the crippling effects of Business Rates, Brandon Lewis, the Minister for DCLG, replied that local authorities already have the power to offer Business Rate relief, if they feel that businesses need to go into a particular part of their town, and need an extra boost to get it going.³⁰

20. However, local authorities are suffering from reduced income and greater expenditure. In such straitened times, local authorities are far less likely to give Business Rate relief. Indeed, when questioned on the fact that Great Yarmouth local authority, in his

26 Department for Business, Innovation and Skills, *BIS Retail Strategy*, October 2012, page 1

27 *BIS Retail Strategy*, page 7

28 Ev w12

29 Ev w67

30 Q398

parliamentary constituency, has not offered Business Rate Relief, Mr Lewis replied that “if the council in Great Yarmouth, like any other, wants to see its town centre really flying, they should look carefully”. But later, he qualified his answer, by saying that “we do have one big issue there that the council is trying to deal with at the moment, but that is linked to the cost of dealing with asbestos”.³¹ The Minister recognised the fact that local authorities have competing claims on their reduced budget, and the granting of Business Rate Relief might not be considered a greater priority than dealing with asbestos.

21. We recognise the good intentions behind the Portas Review and the brief Government retail strategies of 2012 and 2013, and the documents have resulted in useful national discussions about the retail sector and, specifically, the demise or otherwise of the High Street. However, the Portas Review stressed the need for a review of Business Rates, while the Government strategies mentioned Business Rates only in passing. Furthermore, the strategies demonstrate a deliberate ‘hands-off’ approach to many of the issues facing the retail sector, and instead encourage local communities, including local authorities, businesses and organisations, to boost their own local areas. However, this encouragement comes without any meaningful finance or any coherent and effective plan.

22. The BIS Retail Strategy had no mention of the possibility of retail being included within BIS’s Industrial Strategy programme. Our evidence highlighted this fact, stating that the retail sector suffered as a result of the removal of funding from the Sector Skills Council coupled with the fact that there was no industry partnership for retail. Martin-Christian Kent, representing the National Skills Academy, told us:

We are in a no-man’s land since last April [2013] when the core funding went from the Sector Skills Councils to the vision for industrial partnerships and the roll-out of industry partnerships. We really are in a sort of no-man’s land as to what happens. [...] It is really a critical time for the industry, as for others, but given the size of it and its dependence on things like apprenticeships, I really do think it is going to be quite critical.

[...]

A lot of industry is slightly dumbfounded by the fact that, given the size of the tourism and visitor economy—with hospitality, retail, and passenger transport—it is not part of that industrial strategy, given it employs one in five people. I think they feel, at one extreme, disappointed, dumbfounded and highly frustrated.³²

23. Michael Fallon, Minister for BIS, justified the Government’s decision not to have an industrial strategy for retail:

[Retail] is not a sector that requires an enormous amount of government expenditure in terms of capital support for very high-cost research and development. It is not a sector where there are very high barriers of entry into the sector. It is, at the moment, a very successful sector, growing strongly, extremely competitive and not in

31 Q399

32 Qq309 and 310

need of the kind of long-term framework that we have put in place for aerospace or life sciences or some of the other major industries.³³

24. We are not convinced that the success of the Retail Sector should be given as a reason for it not needing an industrial strategy. As with other sectors where Industrial Strategies are proposed to build on areas of strength, there is an opportunity to use policy to support even greater success in the future. The Government should include the retail sector in its Industrial Strategy programme, and we recommend that the Government rectifies this omission at the earliest opportunity.

3 The changing nature of retail

If town centres are going to be the focal point of our communities in future, they have to change and, in order to do that, they need a plan. [Bill Grimsey]³⁴

Current position

25. The way in which we shop has changed and will continue to change, given the increasing popularity of online shopping. Figures from the Christmas period of 2013 highlighted this increase:

Internet sales, which are seasonally adjusted for the first time in this release, increased by 11.8% in December 2013 compared with December 2012 and by 1.8% compared with November 2013.³⁵

Liz Peace, Chief Executive of the British Property Federation, described the changing nature of the retail sector:

Certainly, we have seen a very substantial change—particularly in relation to the impact of retail on town centres and high streets. Basically, town centres and high streets blossomed. Lots more retail came through the 20th century, but now it has shrunk and it will have to shrink back again. There is less demand for retail in traditional high streets. Obviously, what you have seen is a blossoming of malls, property malls, out-of-town shopping centres and out-of-town supermarkets. [...] We do not challenge that change; we think we merely have to adapt to it. The key, from a sociological perspective, is how you adapt to the impact that has had on the town centres and high streets. We cannot put the genie back in the bottle; we have to learn from it.³⁶

26. Much of our evidence pointed to the fact that customers use a variety of ways of shopping, by using their mobile devices, their computers, browsing in shops—both on the High Street and Out-of-Town—and any combination of the above. However, there is an imbalance between online and physical retail, most clearly seen by the issue of Business Rates, which adversely penalises traditional store-based retail. The future health of the online retail market requires a vibrant physical retail sector. The British Retail Consortium described this significant change:

Our industry is undergoing a structural transformation on a scale that we have not seen in the past. Consumers have proved themselves very adaptable to new technologies and hungry for the new ideas from our sector that are improving and enhancing the experience of shopping. Critically, this on-going development of digital technology and the explosion of different ways to satisfy consumer demand are having a monumental impact, not only on the sector but the shape of our

34 Q352

35 Office of National Statistics, *Retail Sales December 2013*, January 2014

36 Q232

communities and society. This represents a very significant increase in the impact of commercial decision-making beyond the boundaries of business, into the shape, structure and culture of where we live and work.³⁷

The High Street

27. The ‘High Street’ is a phrase often used, but little understood. It is a geographical location that can lie in city centres and town centres, and in suburban and village shopping areas. It has common characteristics but varies enormously across these diverse geographical areas. Significantly, the High Street needs to recognise that it is facing a historical change in shopping preferences. CACI Ltd, a consultant in location planning, wrote, “policy makers should be wary of looking back to a nostalgic view of traditional ‘High Streets’”.³⁸ This runs the risk of property owners basing their future strategies on unrealistic, outdated expectations.

28. Fiona Wilson, head of Research and Economics at USDAW, highlighted the emergence of ‘showrooming’, when shoppers will look at the products in store, and then leave and buy the product on their mobile devices.³⁹ Meryl Halls, from the Booksellers Association, described the effects that showrooming can have on independent shops:

That is one of the main challenges to retailers: they have got all of the overheads of their premises on the High Street, but unless they are an omni-channel and can think of their shops as showrooms, they cannot possibly compete. The independents cannot treat their shops as showrooms because they have not got anything to fall back on. It is very hard.⁴⁰

29. This method of retailing has resulted in a surfeit of ‘bricks and mortar’ shops, which Professor Bamfield, Director, Centre for Retail Research, described:

Due to the structural change and the change in technology and innovation, our conclusions are that there probably are too many shops and we may well see 20% of them disappearing over the next few years.⁴¹

The British Council of Shopping Centres agreed with the prediction of a significant reduction in bricks and mortar shops:

But the most significant impact of multi-channel retailing on our industry is the reduction in the quantum of physical space required overall by multiple retailers to reach their desired market, the resultant obsolete space, where this is likely to be located in the retail hierarchy, and how the industry deals with this oversupply.⁴²

37 Ev 172

38 Ev 57

39 Q130

40 Q275

41 Q232

42 Ev 166

However, CACI Ltd highlighted the positive relationship between online and physical shops:

The relationship between online and ‘bricks’ should not be seen as mutually exclusive. Analysis we have undertaken for major retailers show that some omni-channel retailers increase their online sales when they open a new bricks & mortar store because of the ‘brand anchor’ and ‘showroom’ effect.⁴³

30. Intu Properties plc believed that local authorities have “frustrated the natural evolution of social hubs in the community through trying to protect the traditional retail role of the High street”, and Bill Grimsey, businessman and author of *The Grimsey Review: an alternative future for the high streets*,⁴⁴ told us that “the last thing this country needs is more retail space. It needs less retail space and it needs public spaces used for community wellbeing”.⁴⁵

The Association of Licensed Multiple Retailers highlighted the positive aspects of food and drink to Town Centres and High Streets:

High streets need to offer more than just retail to attract customers back. Research by CACI reveals how integral a robust eating and drinking out offer is to the health of retail. Retail environments which include a broad and varied mix of licensed retail environments encourage customers to stay for longer and to spend more. Moreover, consumers who eat and drink out as part of their retail experience have a higher per capita spend and dwell time than those who do not.⁴⁶

This point was also supported by much of our evidence, including that from the British Retail Consortium (BRC):

Successful High Streets will become places people visit for a wider experience, encompassing more than just shopping. The retail offer must work with, and complement, the omni-channel experience. Many locations are indeed already doing this with successful local partnerships driving innovation, fostering the optimal retail, social and municipal mix. For many the focus will be on marketing, accessibility and ensuring there is a shared local vision for the retail centre.⁴⁷

31. David Owen, Chief Executive of GFirst LEP, spoke about the need for town centres to encourage such community life:

Town centres are absolutely vital to our local communities, because a dead town centre creates an atmosphere, environment and culture in an area that becomes increasingly challenging. People do not see opportunity; they do not feel good about

43 Ev w30

44 Bill Grimsey, *The Grimsey Review: an alternative future for the high street*, September 2013

45 Q356

46 Ev w13

47 Ev 174

the place in which they live or work or play. I think Town Centre First is absolutely the right approach.⁴⁸

Interestingly, David Owen and his colleagues gave us a tour of Gloucester town centre, and we saw an example of the innovative use of a retail outlet as a PopUp shop, to advertise the courses on offer at Gloucestershire College. The following day, Peter White, Executive Director of the College, explained that the move to the city centre meant reaching out to people who might not have thought of studying:

The footfall over the eight-week period was over 1,600 people. We actually took 169 applications for courses, so pretty much one in five people who came in applied for something; 83 of those applications were for full-time courses at the college, and on our conversion ratio—we convert at around 65%—you are talking about £189,000, so £23,000 a week.⁴⁹

When asked whether those figures amounted to net additional recruitment, Peter White replied that it was impossible to know, but lots of careers information was given out, which in itself was a good thing.⁵⁰

32. This example illustrated the fact that a town centre can have a mix of retail and other businesses, including information outlets, which add to the fabric of the community hub. This call for meaningful community hubs was a thread running through our written and oral evidence.⁵¹ Tony Wheeler, Head of Branch at Peter Jones, told us of his positive experience of working at Kingston upon Thames, where the community was involved in the town centre strategy:

I was chairman of the Business Improvement District at Kingston upon Thames, and during that time I found the relationship between private and public sector really fascinating. The value we got from an integrated strategy for that town centre, which involved retail, public sector and community groups trying to make sure that we had a strategic vision for the destination that attracted consumers into that space was absolutely vital.⁵²

33. In order to achieve an integrated strategy for a town centre, Liz Peace, Chief Executive of the British Property Federation (BPF), stressed the need for strong leadership and a strategic plan:

It is not much use just going on about Town Centre First unless you have a strategy and a plan for how you are actually going to implement that to create something out

48 Q233

49 Q342

50 Q343

51 Brian Binley MP, a Member of the BIS Select Committee, was Chair of the Conservative Parliamentary Enterprise Group, which published, in July 2008, *A Strategy for Successful Community Hubs: Commission into Small Shops in the High Street*.

52 Q189

of your town centre, which might be very different to what it was 30 or 40 years ago.⁵³

When asked about the need for stronger community hubs, which will emerge from a strong retail sector in the area, the DCLG Minister, Brandon Lewis, told us that this was for local authorities, rather than the Government, to shape:

It is not one size fits all, ‘We know best in Whitehall’, but actually it is your town centre. It is your community. You have the power to do something with it. We have to cajole, encourage, nudge and motivate all our local authorities to look really carefully at what they can be doing with the powers that we have given them. I do not think we should underestimate the amount of power we have devolved that does allow councils particularly to do this.⁵⁴

34. With the dramatic rise in internet shopping, retail businesses are no longer locked into one way of working, and likewise, the High Street is no longer just about retail; it is also about creating a leisure experience, including opportunities for visiting cinemas, restaurants etc. However, for community hubs to survive and flourish, the High Street needs support from the Government. We do not recommend that the Government spends huge sums propping up an outmoded way of retailing. However, we support calls for Government to help shops to remain on the High Street, and for new, independent shops to be able to open on the High Street, by reviewing the burden of Business Rates, which are still based on an outmoded pattern of retail.

35. The United States has a different tax structure, but lessons could be learned from its approach to local taxation and rent. We appreciate that this is complex, but it is something that the Government should explore as an alternative to the current system. The Government should look into encouraging a more flexible approach from landlords, and discouraging upward-only rent revisions. This would result in a fairer and more sustainable system.

Local Enterprise Partnerships (LEPs)

36. The BIS *Retail Strategy* highlighted the role of LEPs in England, to promote and support their local retail sector. However, the experience is mixed, and ‘retail’ is missing in the strategy of many LEPs:

Retailers are the prime movers behind Business Improvement Districts (BIDs) and are on the boards of several Local Enterprise Partnerships (LEPs). LEPs are beginning to explore what they can do to support retail in their areas—not just as part of the local economy—but as important engines for growth. [...] The Government will work with local partners to better understand market conditions and challenges and to undertake activities that maximise retail’s contribution to

53 Q233

54 Q396

growth in local economies through identifying opportunities and sharing best practice.⁵⁵

37. However, the Government's *A Strategy for Future Retail* paper, published a year later, expressed concern over the lack of focus on retail by many LEPs:

Many LEP strategies include actions that will benefit retail, for example through the leisure economy or town centre regeneration, and several have retail and town centre specific activity. However, only a few LEPs have retail as a priority sector. There is more that can be done to help LEPs to recognise the importance of retail and town centres to local and regional economies, and in demonstrating the value that LEPs can add. This was a recurring issue during the Business and Skills Select Committee inquiry into retail in 2013.⁵⁶

The Co-operative Group welcomed the relationship between BIS and LEPs, but highlighted the lack of LEP funding and powers:

[I]t is paramount that LEPs are furnished with the level of resources they will need to succeed. We believe that currently LEPs do not yet have the capacity, both in terms of funding mechanisms and powers, to deliver substantial economic growth.⁵⁷

David Owen, Chief Executive, GFirst LEP, described the reasons behind the success at Gloucestershire:

We set up a very strong retail-sector group alongside nine other sector groups, which cover our key sectors in Gloucestershire. They are purely business people; they are genuine business people running businesses right across the county. That is at the very heart of what we consider our role as a local enterprise partnership to be. We have strong leadership from a chair with a very credible business background who is well known locally; we have very strong relationships with the local authorities, because we cannot deliver, as Local Enterprise Partnerships, without a genuine partnership with our local authorities; and we make sure that the LEP is seen by local businesses as being led by business for business, to grow the economy.⁵⁸

38. However, the Rural Shops Alliance was not so complementary about the Gloucestershire LEP:

The major output from Gloucestershire LEP, as the first LEP retail pathfinder, has been a report under the Successful Town Centres—Developing Effective Strategies banners, subtitled 'Understanding Your High Street'. This is a quite interesting academic approach, albeit one based on traditional hierarchy of shopping centre models. However, it delivers few ideas on how to actually address the problems it discusses. It is perhaps pertinent that of the 20 main contributors only one, Boots the Chemist, is an actual retailer. The techniques used hardly seem cutting-edge and

55 BIS Retail Strategy, page 7

56 *A Strategy for Future Retail*, p 14

57 Ev 179

58 Q239

based on the published documentation, seem to lack the rigour employed, for example, by the sophisticated geo-demographic mapping models employed by major multiple retailers.⁵⁹

39. This concern about local authorities' general lack of planning and oversight in the context of regenerating High Streets and town centres was reiterated by Mike Davidson, Head of Retail Operations, Land Securities. He highlighted the good intentions of his local centre managers and centre directors to engage with the local communities in which they were investing. However,

Quite often they have a limited amount of time and resource to be able to give to those things, because ultimately they are still running a business, and quite often, therefore, it is difficult to know where to invest that time. Is it the LEP? Is it the BID? Is it the local strategy partnership, of which many towns I have worked in have a plethora of groups that are meeting to talk about? Is it the retail community? Is it the leisure and tourism community? There are dozens of these, and cutting through all of that to get to the point where you can spend your time most productively doing things that are going to develop some sort of strategic change, rather than sitting in numerous talking shops, is what we would like to be able to do.⁶⁰

40. When the Secretary of State, Vince Cable, gave evidence to the Committee in January 2014, in reference to the Department for Business, Innovation and Skills' Annual Report of 2013, he told us that LEPs function in "varying quality and competency across the country".⁶¹

41. The Government has placed the 39 Local Enterprise Partnerships (LEPs) at the forefront of supporting the local retail sector, yet many of them lack the necessary resources and influence to succeed. The Secretary of State for the BIS Department acknowledged this to us in evidence. *The Government should call on LEPs to develop a strategy for retail, in order to demonstrate their commitment to the Retail Sector.*

42. *Given the substantial contribution of retail to employment, we recommend that all LEPs consider appointing a retail representative on their board. For independent traders, this may not be feasible. However, national retail businesses should do more to encourage their local or regional management to participate in LEPs.*

59 Ev 187

60 Q340

61 Oral evidence taken on 22 January 2014, HC (2012-13), Q70 [The Rt Hon Vince Cable]

4 Skills

Retail is an entry-level occupation for significant numbers of workers, but it is also an occupation that people progress through.
[Fiona Wilson, USDAW]⁶²

General skills

43. Retail is the largest private sector employer in the UK. Around three million people are employed by the UK retail sector (which equates to around a tenth of the UK workforce), and retail is the largest private sector employer.⁶³ The British Independent Retailers Association carried out a survey of 4,000 of its members, which indicated that “the average small shop sustains eleven jobs. Even if this was twice the norm it would indicate that independents provide more than a million positions”.⁶⁴ The British Retail Consortium stated that retailers’ investment in staff training “is equivalent to £1,275 per employee each year”.⁶⁵ Fiona Wilson, from USDAW, told us that “in the retail industry, the workforce is the greatest asset, and therefore it is very important, from an inquiry point of view, to consider the workforce—their terms and conditions, their pay and, particularly, the skills that they need to keep the sector growing”.⁶⁶

44. Boots UK wrote of the common misconception that retail is a low skill and low cost sector, when the reality is that the sector often offers rewarding careers, with a good career progression:

The retail sector invests heavily in its staff and provides many people with skills and experience that they utilise throughout their life. [...] As retail changes and the store-online experience become more seamless and integrated, staff within the retail sector will need to have the skills to operate across multiple platforms whilst still engaging with customers in a face to face conversation”.⁶⁷

45. Fiona Wilson, from USDAW, described the career progression available for staff, and the way in which employers and unions support that progression:

Retail is an entry-level occupation for significant numbers of workers, but it is also an occupation that people progress through. It is often a case of starting on the shop floor and working your way up. That is a very common pattern for employment and skills within retail. [...] What we do as a union is important, in that we develop our lifelong learning work. We have funds from BIS through the Union Learning Funds. [...] We support our members: more than 7,000 of our members last year had some

62 Q104

63 Ev 115

64 Ev w25

65 Ev 174

66 Q104

67 Ev 164

skills training, such as skills for Life courses, IT courses, literacy and numeracy levels 1 and 2, and accessing National Vocational Qualifications 2 and 3.

She went on to describe the training that the Union and employers run jointly:

There are lots of situations where there are Union Learning reps, and those reps work with the employers there through formal agreements to help to skill workers who are already there. We find that the Union Learning Fund is exceptionally valuable from a joint point of view, in terms of giving workers who are already in that employment the skills to continue to work and develop themselves.⁶⁸

46. The Rural Shops Alliance criticised the BIS strategy document for listing more specialist skills and knowledge needed in the retail sector, while not mentioning more general skills and development.

The BIS strategy document mentioned knowledge transfer between various stakeholders, research into assisted living products and a skills gap analysis. These disparate approaches fail to address more mundane needs that would nevertheless have a large impact on the quality of retail management in the UK. Independent retailers often enter the profession after a career elsewhere. The barriers to entry into the retail industry are fairly low and it is possible to run a shop with very few retail skills. There is a massive need for specialist consultancy and training support for small independent retailers.⁶⁹

47. We recognise the important work that employers, unions, and the Government do in supporting people already in the workforce to continue to work and develop their skills. We were therefore disappointed that the Department did not highlight this work in its Retail Strategy. We recommend that the Department commits to continued financial support for the Union Learning Fund, which enables unions and employers to work together, providing employee training and support. LEPs could provide valuable assistance in this work.

Apprenticeships

48. Apprenticeships are being used more and more in the Retail Sector in England, which the Government's evidence highlighted:

Retail is one of the largest users of Apprenticeships. In the 2011/12 academic year there were 108,300 Apprenticeship starts in the 'Retail and Commercial Enterprise' Sector Subject Area, up by 5.4% on 2010/11 and up by 75.7% on 2009/10.⁷⁰

Apprenticeships offer more long-term opportunities than in-house training. Martin-Christian Kent, from the National Skills Academy, explained the difference:

Ultimately, if somebody is starting in the sector, then they have got a longer journey to reach that professional standard, and that is what the apprenticeship is for. In

68 Q126

69 Ev 187

70 Ev 132

other instances, in-house training and qualifications have a different role. They have got the same parity, but the critical thing is raising the aspirations and looking at these professional standards.⁷¹

Stephen Rydzkowski, from USDAW, told us that apprenticeships in retailing is one of the fastest growing. He said:

All our major companies now operate apprenticeship schemes. We do not normally mention companies, but we will talk about the Co-op group [...] because that is an area where there is a range of apprenticeships throughout the sector. You have got retail apprentices; you have got clerical apprentices; you have got motor mechanic apprentices; and you have even got apprenticeships in the farming industry.⁷²

49. Morrisons highlighted the support that it gives to its staff, including those who leave school without any qualifications:

To date, over 110 Morrisons colleagues have completed a QCF/SVQ Level 2 qualification in either retail skills or customer service (equivalent to 5 GCSEs at grade C or above). Almost a third of these colleagues left school without a single qualification. So the training we are offering is repairing gaps in knowledge left by the education system and building confidence, as well as setting colleagues on the first step towards the fulfilment of career goals.⁷³

Similarly, the Association of Licensed Multiple Retailers wrote of the high proportion of apprenticeships provided by licensed hospitality:

Licensed hospitality is the fifth largest providers of apprenticeships and properly configured, they offer robust, transferable skills, which are beneficial to both employee and employer. Currently, 3% of our workforce is on an apprenticeship, but our ambition is to offer that to 5%. On average, 80% of our school leavers starting a pub and bar apprenticeship go on to enjoy a career with the business after finishing the programme, meaning stability for learners and company alike.⁷⁴

50. Martin-Christian Kent raised the point that the changing nature of retail means that the content of apprenticeships in the sector needs to evolve: “We are working with employers to embed multi-channel and omni-channel skills within the current apprenticeships. It is part and parcel of what their staff need for our sector at this moment. Many of our national businesses are really recognising that as they move into this new world of global retailing and not just local retailing”.⁷⁵

51. *Apprenticeships are being used more frequently in the Retail Sector. They allow retail staff, who often leave school with few qualifications, to gain transferable, interpersonal skills. However, retailing is becoming a much more sophisticated industry, and those who*

71 Q300

72 Q126

73 Ev w63

74 Ev w14

75 Q301

work in the sector need to be more comprehensively trained. We support the work that employers do in training their workforce. The retail sector should be more ambitious about skills training, encouraging more staff to be trained at Level 3 and above. Furthermore, given the importance of tourism to the United Kingdom, consideration should be given to developing language skills to enhance the international consumers' retail experience.

Digital skills in the Retail Sector

52. Our evidence highlighted the need for skills in the retail sector to keep up with its changing retail landscape.⁷⁶ With the rapidly changing nature of the retail sector, the National Skills Academy for Retail described the corresponding changing nature of skills:

To respond to these changes, retailers must be increasingly willing to engage with customers across multiple channels, combining traditional bricks and mortar and online presences, with the single objective of enhancing the customer experience. This had profound implications for shops and for those who work in them—click and collect will become commonplace and returning goods will become a major issue. There will be major changes in the way retailers use physical space and technology.⁷⁷

It highlighted the two major impacts on skills:

- Retailers need to upskill their customer facing workforces to be able to deal with customers who are increasingly willing to shop across a variety of channels. In many cases the customer is ahead of retailers' ability to respond.
- Many small businesses have not yet embraced the technology due to their lacking the technical skills to get their businesses online. A major initiative to upskill the owners and managers of small businesses is needed if we are to retain the diverse range of retailers we currently have.⁷⁸

53. TalkTalk Group's written evidence stated that half a million SMEs lacked the digital skills required to make the most of online opportunities and that only 14% of SMEs sold products and services online.⁷⁹ TalkTalk went on to argue that improving the digital skills of UK businesses, especially retailers, should be a priority of Government:

The Government are making a considerable investment into building infrastructure but an insignificant small amount on making sure people are able to use it. Northern Ireland has around 95% superfast broadband coverage already today yet around 24% of the population have never been online; the highest level of exclusion in the UK. The Government is about to spend £150 million on broadband via its Super Connected Cities programme and currently it looks like a significant portion of that

76 For example, Ev 183 [National Skills Academy for Retail]; Ev w23 [British Independent Retailers Association]; Ev 172 [British Retail Consortium]

77 Ev 186

78 Ev 186

79 Ev 192

will go to fund broadband connection fees for SMEs. TalkTalk believes this funding would be much better invested in skills programmes and initiatives like funding UK online centres.

[..]

Talk more about the importance of digital skills. We believe the more Government talk about it, the more motivated the private and third sector will become to take steps to change behaviour. The internet connects, educates and informs and TalkTalk strongly believe that working to close the digital skills gap is essential for the UK's economic growth.⁸⁰

54. The only reference to skills in the first BIS retail strategy document of October 2012 was the lack of people with adequate science, technology, engineering and mathematics (STEM) skills throughout the retail sector, with an undertaking to carry out a retail STEM skills gap analysis in February 2013. It stated:

The Government will help to identify the extent of the problem by undertaking a retail STEM skills gap analysis, likely to focus on higher mathematics, technical capability, data mining and analysis, e-commerce functionality and cyber security, good science and technology (February 2013).⁸¹

When asked what the Government had learnt from this analysis, Michael Fallon, Minister at BIS, replied:

We learned that there are still skills gaps inside the sector. The Minister for skills in my Department continues to meet the Retail Consortium and each of the individual retail employers, alongside the National Skills Academy, to make sure they are getting the best out of the apprenticeship scheme, that they put forward good bids for the employer ownership pilot schemes and to see what we can do to help stakeholders, particularly in this sector, map the range of retail roles that will require digital skills in the future, not least the ones that will demand a higher level of maths and knowledge of code than we have seen up till now.⁸²

The Department's *Strategy for Future Retail*, published in October 2013, restated the Government's ambition for skills and the progress made thus far:

To make the most of these opportunities, BIS will:

In partnership with retailers, retail sector bodies and skills providers, develop a framework that identifies the range of retail roles that require skills in high level mathematics and data analysis. The project will then map the skills and qualifications required in these roles. Key partners: BIS, Retail sector bodies, retailers, retail Sector Skills Council, research councils (Spring 2014);

80 Ev 193

81 BIS Retail Strategy, page 6

82 Q422

In partnership with stakeholders, develop a framework that captures current and planned initiatives and activities to drive up digital skills and qualifications across Government, retailers and retail organisations and sector skills bodies, and promote effective collaboration and co-ordination where possible. Areas captured would include the retail National Occupational Standards for Multichannel, the Government's Information Economy strategy, and the 'Stimulating Innovation' action of this strategy. Key partners: BIS, Retail sector bodies, retailers, retail Sector Skills Council, research councils. (Spring 2014).⁸³

When asked about the similarities between the action points on skills from the original BIS Retail Strategy document to those in the document published the week before the oral evidence session, Michael Fallon told us:

The retail strategy itself is new. What we published last week is a refresh, one year on. There are other policies across government, the launch of the digital capability programme and so on, that have come on stream this year, which need to be tailored to what we are going to do on digital. We are not dragging our feet on this at all. We want to work with the industry and make sure that we can really focus our effort on where they think the priorities are and on where they think the gaps are.⁸⁴

55. The changing nature of how people shop needs to be mirrored in the way in which staff are trained, to enable them to provide a more tailored service. The BIS Retail Strategy document published in 2012 made passing reference to skills needed for the retail sector, referring only to the need for a science, technology, engineering and mathematics (STEM) skills gap analysis. In its follow-up document a year later, A Strategy for Future Retail stated that an analysis of skills needed for high level mathematics, data analysis, and general digital skills to be completed by the Spring of 2014. In its response to this Report, the Government must outline the results of BIS's latest STEM skills analysis, and the timeline for the action that it will take.

83 The Department for Business, Innovation and Skills, *A Strategy for Future Retail: Industry and Government delivering in partnership*, October 2013, para 2.7.2.

84 Q424

5 Business Rates

The debate about Business Rates is essentially the debate about the future shape of our cities, our town centres, our high streets and our communities. [British Retail Consortium]⁸⁵

Introduction

56. As we said at the start of this Report, the issue of Business Rates was highlighted as the main threat to the survival of existing retail businesses in the High Street, and the biggest obstacle to entrepreneurial, new retail businesses starting up.⁸⁶ Boots UK wrote that “Business Rates represent the highest level of corporate tax in the UK and one of the highest forms of local property tax in the EU”.⁸⁷ Tim Fallowfield, Corporate Services Director at Sainsbury’s, said that “the UK’s proportion of property-related taxes as a proportion of GDP is significantly higher than that in any other country in Europe”.⁸⁸

57. Business Rates, also known as non-domestic rates, are a tax on non-domestic property, and, according to Brandon Lewis, Minister for DCLG, the Retail Sector accounts for approximately 25% of this tax.⁸⁹ Business Rates are calculated by multiplying the rateable value of the premises (currently as at 1 April 2008) by the multiplier (pence per pound of rateable value). The rateable value of the premises is set by the Valuation Office Agency, an executive agency of HM Revenue and Customs (HMRC)⁹⁰, and the multiplier is set by the Government.⁹¹ At the beginning of each financial year, the Government may raise the multiplier by a maximum equivalent to the Retail Price Index (RPI) from the previous September. Local authorities have the responsibility of billing and collecting Business Rates from businesses in their area. They are also responsible for implementing different rate relief measures, some of which are mandatory and others discretionary. The occupier of the property is liable for Business Rates, and when the property is unoccupied, the owner is liable.

58. The Local Government Finance Act 2012 introduced the Business Rates Retention Scheme in England, which made alterations to the distribution of Business Rates between local authorities and Central Government. While the job of billing and collecting the tax from businesses remains with local authorities, 50% of rate revenue is now retained by local authorities, while 50% goes to Central Government, where previously Central Government kept all Business Rates revenue. Within the Government, there are three Departments that are concerned with Business Rates: the Treasury; the Department of Communities and

85 Ev 177

86 The taxation system differs across the United Kingdom, and Business Rates are a devolved matter. However, the system in Scotland and Wales is very similar to that in England.

87 Ev 165

88 Q229

89 Qq 376 and 378

90 In Scotland, the rateable value of the premises is set by the Scottish Assessors, and in Northern Ireland it is set by Land and Property Services.

91 The multiplier is set by the Scottish Parliament for Scotland and by the National Assembly for Wales.

Local Government; and the Department for Business, Innovation and Skills. The BIS *Retail Strategy* paper states that “the Government position on Business Rates is that it is committed to review the use of the Retail Price Index for Business Rates once its fiscal consolidation plans have been implemented”.⁹²

59. The Association of Town and City Management described the current Business Rates system:

The original rationale behind a system that will only ever increase revenue to the Government in line with inflation (measured by RPI) was that land and property were price inelastic as there were few suitable alternatives to undertake trade. Trading without property was virtually impossible, meaning taxation had little impact on investment decisions. However, years of increasing the land available for main town centre uses, coupled with the growth of the internet means commercial property, while critical to the UK economy, is not the attraction it once was.⁹³

60. Our written and oral evidence predominantly concentrated on the burden of Business Rates on the retail sector, especially the burden of the tax on ‘bricks and mortar’ shops on the High Street. Morrisons wrote about this excessive tax burden carried by the retail sector:

Among the FTSE 100, only the banking sector and oil and gas sector contribute more in tax than the retail sector. We are happy to pay our fair share of tax to help fund the services on which we all depend, and to do so in a transparent way. But as one of the few drivers of growth in today’s economy, the Government should be looking to deliver greater certainty for the retail sector in the tax system as a way to promote further growth and investment.⁹⁴

61. Many small businesses are paying more in Business Rates than they do in rents.⁹⁵ F Hinds—a family-owned and run retail jeweller, trading for over 150 years with 110 shops across England and Wales—wrote of the practical repercussions of the high level of Business Rates on their business:

It is frustrating that we have had to turn down several shops because the rates bill is unrealistically high, often in excess of the rent we would have been required to pay. This has meant that we have not employed several staff in each of these locations nor made an investment of the order of £400,000–£500,000 each time. So far as we are aware, in the vast majority of cases, these shops are still sitting empty. What makes it worse is that these are generally the medium sized towns which are most at risk from retail collapse due to a tipping point being reached in the number of empty shops. Since 2007, every shop we have opened (eight) has been in a shopping centre and every shop we have closed (five) has been on a High Street. This has not been a strategy or even a desire but the inevitable effect of increasing costs without

92 BIS *Retail Strategy*, page 3

93 Ev 159

94 Ev w63

95 Around 30% more, according to the Federation of Small Businesses (Ev 171)

increasing the revenues in these locations and a worsening surrounding environment.⁹⁶

62. Rodney Atkinson, an author and High Street landlord in the North East of England, also wrote about the incongruity of rents stagnating or falling, while Business Rates keep increasing:

While rents stagnated Business Rates kept rising. Now that shop rents are actually falling (by up to 30%) Business Rates (which are supposed to be related to rentable value) are still going up. This is a massive and inexcusable burden on landlords, tenants and consumers.⁹⁷

63. The crucial point about the current Business Rate tax system is that it is fiscally neutral, which means that the tax is not set or changed by the Government in order to promote or discourage certain practices. Brandon Lewis, Minister of State at the Department of Communities and Local Government, told us that “the business rate levels overall stay the same. If one sector or one geographic area drops, everything else is covering the cost of that, so the multiplier has that impact”.⁹⁸ When asked whether the current system should change because of its unfairness to individual premises, Brandon Lewis replied:

The problem with that is you are then also altering the overall tax take, which means you are dealing with the problem that this Government is having to deal with: the deficit that it inherited and the debt we inherited. There is a fiscal consideration we have to take into account as well.⁹⁹

64. Bill Grimsey, retailer and author of *The Grimsey Review*, also highlighted the inflexibility of the Business Rates system:

If we look at the issue of business rates and the reliability that Government has on this tax, it is quite frightening. It is the only tax that does not flex with economic conditions and, therefore, it is relentlessly going upwards and onwards. It is £26 billion this year, as a total number. It is going to break through the £30 billion mark in the next couple of years under the current methodology, but it is not likely to get changed very quickly.¹⁰⁰

Helen Dickinson, Director General of the British Retail Consortium (BRC), highlighted the benefits of reviewing the way in which Business Rates is calculated, which has the potential for generating more revenue for the Government:

If there are about 300,000 stores across the whole of the country and the vacancy rate is 12%, if that was moved by 1% then that is about 3,000 stores. If between five and 10 people are employed in each store, that [equates to] 15,000 to 30,000 jobs. Then you have a knock-on effect from a Treasury point of view of corporation tax and

96 Ev w45

97 Ev w16

98 Q392

99 Q392

100 Q368

national insurance from that particular store. That is before you get into the beneficial impact on the local economy. My point there is that perhaps we need to look at it in a different way.¹⁰¹

65. Both Business Rates and the high costs of rents are issues that affect the Retail Sector. The cost of Business Rates is increasing disproportionately to the cost of rents. The result is causing critical financial difficulties for many retail businesses, especially SMEs. This means that not only are those businesses suffering, and in danger of closing, but that some High Streets are becoming littered with shops that have closed down. This problem is exacerbated when rents do not reflect the economic realities.

Revaluation

66. In the context of Business Rates, revaluation means that the tax paid is based on up-to-date property values. *The Grimsey Review* outlined this point:

The purpose of a rating revaluation is to achieve fairness of tax liabilities by ensuring rateable values are based upon up-to-date rental values and therefore to redistribute liability in line with relative movements in property values since the previous revaluation.¹⁰²

Revaluation normally occurs every five years. The rental value is based on rental values two years before the revaluation comes into effect. In other words, the 2010 revaluation came into force on 1 April 2010, using the rental value of properties on 1 April 2008.

67. In October 2012, the Government announced a delay of the anticipated 2015 revaluation—which would have been based on rental values in 2013—until 2017. This delay meant that the 2008 rental value of properties will continue to be used to calculate Business Rates until 2017. Brandon Lewis, DCLG Minister, told us the reasons for the delay in revaluation, and that many more businesses would benefit from the delay than would lose out:

The reason that the Government decided to postpone the revaluation was to avoid the volatility that would have happened for a lot of businesses. They had that certainty of planning through [...] the very volatile economic period that we have been through. Hopefully, we are now coming out the other side of that, but it meant that there was that stability for companies to be able to plan and look at their plans, going forward, without the concern about what might happen in 18 months' time. [...] A lot of those businesses would have been within [the] 800,000 losers, as opposed to 300,000 winners, because of the scale and size of the change in the property value and the rentable value, particularly for London office space. This is where there is simply no basis for the argument around the north-south divide. Actually, it is London that probably would have benefited, particularly London office space.¹⁰³

101 Q22

102 *Grimsey Review*, section 2, page 26

103 Q387

68. In contrast to the Minister's views, much of our evidence stated that the delay *had* resulted in unfair discrepancies both across the country and within the retail sector, specifically because the rateable value in 2008 did not reflect the impact of the financial crisis on rateable value of properties.¹⁰⁴ Those businesses whose property value had increased since 2008 were being subsidised by those whose premises value had decreased. This tax burden is added to the fact that, according to PWC, "profit margins and volume of UK retail sales have stagnated since the onset of the financial crisis, after a period of sustained growth. Sales in March 2013 were only 2.0% higher than in March 2008".¹⁰⁵ Bill Grimsey described the effects of the delay of revaluation:

It is causing no end of distress out there, and the beneficiaries of this move are the large supermarkets, so we are perpetuating a consumer drift to out of town and to different models, away from the independents, by economically favouring the supermarkets, which will benefit to the tune of £1.3 billion over two years by the delay of this revaluation.¹⁰⁶

69. When this concern was put to the DCLG Minister, Brandon Lewis, he said that the Government wanted to "avoid the volatility that would have happened for a lot of businesses" had the revaluation gone ahead.¹⁰⁷ Then both he and Michael Fallon, Minister of State at the Department for Business, Innovation and Skills, defended the Government's decision to postpone the revaluation, by citing the high level estimates paper commissioned by the Government and written by the Valuation Office Agency (VOA). Brandon Lewis told us:

One of the things that was really clear from the work that was done—the only independent work that has been done—on whether we did the revaluation or not, showed that the biggest beneficiary would have been London office space. Everybody else effectively would have been paying for that. Retail would have gone up.¹⁰⁸

Michael Fallon agreed with this point, and described the debates during the passage of the Growth and Infrastructure Bill (which contained the legislative provision to postpone the revaluation):

When we debated this during the passage of the Bill, it was very clear to me, as the Minister in charge of the Bill, from the only hard evidence we had, which was the analysis done by the Valuation Office Agency, was that the biggest winners of all would have been in London. They would have been Canary Wharf offices and, indeed, Oxford Street premises. It is really not clear to me why we should have given them the benefit and penalised, for example, petrol stations or premises in suburban areas or on outer ring roads of town centres right across the country.¹⁰⁹

¹⁰⁴ According to *The Grimsey Review*, (page 27), at the time of writing, rents had fallen by an average of 14% across the country, according to the Valuation Office Agency.

¹⁰⁵ PWC, *The contribution of retailers to the UK public finances: Total Tax Contribution*, p 4

¹⁰⁶ Q354

¹⁰⁷ Q387

¹⁰⁸ Q384

¹⁰⁹ Q389

70. A number of those who submitted evidence were unconvinced that the VOA paper differentiated so markedly between the potential winners and losers of a revaluation. According to Paul Turner-Mitchell, a retailer and co-author of *The Grimsey Review*:

Even on its own terms, the VOA data contains no justification or support for the claim that 800,000 premises would have seen increases. Based on what can reasonably be inferred from the VOA's estimates and the evidence it says it has collected, about 350,000 premises would see their bills fall, and about 377,400 premises would see their bills rise. Table 2 of the VOA high level estimates identifies that a revaluation in 2015 would have reduced tax liability for London offices by £440,000. Although not explained in the accompanying report, a reduction in liability would require total Rateable Values for London offices to have fallen by some 28% at a 2015 revaluation, i.e. there would have to have been a fall in rental values between April 2008 and April 2013 of 28%.¹¹⁰

71. Furthermore, a number of contributors to our Inquiry questioned the factual basis of the VOA paper as reliable evidence on which to justify a delay in revaluation. Boots UK wrote that "Independent evidence suggests that the Valuations Office Authority (VOA) estimations for many High Streets are unduly high. As such this is compounding economic challenges that many areas are already facing".¹¹¹ The British Council of Shopping Centres was also sceptical about the Government's reliance on the VOA estimations:

The Government has attempted to justify postponement by claiming that '800,000 premises would see a real-term rise in their rates bill, where only 300,000 premises would see their bill fall', and further alleges, without any evidence, that 'smaller and medium firms are likely to be harder hit'. Independent evidence and the work of rating specialists outside the VOA cause us to be extremely sceptical about the Government's statements.¹¹²

72. The Valuation Office Agency is an executive agency of HM Revenue and Customs (HMRC). We therefore question the claim made by Brandon Lewis, who described the Report as "independent research".¹¹³ It should also be noted that the evidence used in the VOA paper came with various caveats by the VOA itself. At various parts of the paper, the VOA wrote that its professional judgement was based on limited rental evidence (our italics):

The Valuation Office Agency (VOA) provided its high level aggregate estimates of rental and rating assessment movement in England since the last revaluation, based upon its professional valuation judgement *informed by the limited rental data held as at the end of January 2012*. [...] The indicative aggregate estimates of movement in rental values, and therefore implied tax changes (estimated changes to business rates liability) in this document were compiled as a result of a specific, one-off, exercise by the VOA. The high level estimates of rental value movement were based on a

110 Ev w84

111 Ev 161

112 Ev 167

113 Q382

combination of limited available rental data and best valuation judgements by VOA, as at the end of January 2012. They are not forecasts; at this stage of the revaluation cycle and process it was only possible to provide high level estimates as at January 2012 and are not a projection to the assumed 2015 revaluation Antecedent Valuation Date (AVD) of 1 April 2013.

The estimates are based on limited rental evidence and informed by professional judgement of the movement in property values since the last revaluation in 2010 as at January 2012. These were provided well ahead of any detailed work, which the VOA would not do at this early stage in a revaluation cycle. To do the full, detailed calculation VOA would need to go through the full revaluation procedure. Neither the rental data nor the judgements have been subjected to the rigour of moderation and validation that we would expect to apply during a normal revaluation exercise. It has been assumed that the statutory rate used in contractor's basis valuations would remain unchanged. In making our high level estimates we have not had regard to those properties which appear in the Central Rating List for England and as such any movement in the value of these properties is not reflected.¹¹⁴

73. These qualifications suggest to us that the VOA advised caution when considering the conclusions of its Report. This point was raised by Edward Cooke, from the British Council of Shopping Centres, who argued that the VOA appeared to acknowledge that its figures were “cobbled together” and that they were “not sufficiently well tested”.¹¹⁵ Mark Williams, Chairman of the Distressed Town Centre Taskforce, gave a forthright opinion of the reasons why the Government chose to delay revaluation:

It is political. I cannot see any other possible answer, because the rating system, for all its faults, on a five-year annual revaluation allows for fairness to come into it. You now have this ridiculous situation where the most distressed towns, like Bromsgrove, are supporting Bond Street, Walsall supporting the West End. We have not yet come across someone who has benefited.¹¹⁶

The Government acknowledged the need for limited reform of Business Rates in its Autumn Statement 2013, and published the terms of reference for the review of the Business Rates administration in February 2014.¹¹⁷

74. The delay in the planned 2015 Revaluation of Business Rates until 2017 has been severely criticised by many in the retail sector. The Government based its decision to delay the Revaluation on a ‘high level estimate paper’ written by Valuation Office Agency, which many organisations have criticised for its lack of firm evidence. Indeed the VOA itself littered the paper with caveats. The delay in the 2015 Revaluation of Business Rates means that, until April 2017, Business Rates will continue to be calculated on property rents set in 2008, before the recession took hold. In justifying the delay in

114 Valuation Office Agency's high level estimates of non-domestic rental and rating assessment movements for England.

115 Q100

116 Q99

117 Department for Communities and Local Government, *Business rates administration review: terms of reference*, 13 February 2014

reevaluation, the Government referred to the fact that the retail sector represents only around a quarter of the businesses covered by Business Rates. This may be so, but it is a key quarter for driving the recovery. We urge the Government to ensure that during the time before the next reevaluation, it works towards the complete reform of the reevaluation system, one of the ambitions of which should be the annual review of Business Rates.

Business Rate link to RPI

75. The annual linking of rises in Business Rates to the Retail Price Index was overwhelmingly criticised by our evidence. The British Independent Retailers Association described it as “damaging”,¹¹⁸ while the British Property Federation said that it represented “a severe compounding effect on what businesses pay, with rates bills in most parts of the country increasing far more rapidly than rents and by over 200% since 1991 overall”.¹¹⁹ Indeed, the Government-praised Portas Review made the recommendation that it should be linked to the Consumer Price Index (CPI) rather than the RPI.¹²⁰

76. The Association of Convenience Stores (ACS) echoed this recommendation, writing that the linking of annual rate increases with the value of RPI inflation:

is an arbitrary mechanic that in recent years has been particularly damaging. ACS advocates that the indicator for setting business rates increases should be a 12-month average of CPI in the previous year with a cap at 2%. The same as council tax increases and in line with the Bank of England inflation target”.¹²¹

The British Retail Consortium also agreed that the rate should be linked to CPI:

The existing approach of using a single month’s RPI snapshot creates uncertainty for property-intensive sectors such as retail. Moving to a CPI-based escalator using a longer run average will provide greater affordability and certainty.¹²²

77. The Autumn statement announced various measures to alleviate the impact of Business Rates, including capping the Retail Price Index increase of Business Rates in 2014–15 to 2% (which was due to rise by 3.2% this April, based on the September RPI measure of inflation).¹²³ The British Council of Shopping Centres advocated just such a capping, “in line with that Bank of England’s target for inflation of 2% as measured by the Consumer Price Index (CPI)”.¹²⁴

78. We welcome the Government’s capping of the inflationary limit of Business Rates to 2% for 2014–15. However, because of the small business multiplier, those businesses in the retail sector that do not qualify for small business relief will see their business rates bills rise by 2.3% next financial year. Furthermore, this cap will apply for one year only. We

118 Ev w26

119 Ev 171

120 Portas Review, recommendation 7

121 Ev 152

122 Ev 173

123 HM Treasury, *The Autumn Statement 2013*, p 45

124 Ev 165

urge the Government to reconsider this limited timeframe, and to stop permanently the linking of Business Rates to a single month snapshot of the Retail Price Index (RPI). Furthermore, the Government should carry out a review to ascertain whether RPI or CPI is the more appropriate index to which Business Rates should be linked. The 12-month average of the CPI or the RPI in the previous year, with a cap at 2%, is a far more appropriate level at which to set the annual Business Rate increase. This would be consistent with the recent limits on council tax increases, and in line with the Bank of England inflation target.

Business Rates relief

Local authority discretion

79. Reductions in liability for Business Rates are available for certain retail businesses; some relief is mandatory and others are given at the local authority's discretion. Local authorities have powers under Section 69 of the Localism Act 2011 to grant Business Rate relief, but "the local authority may only grant relief if it would be reasonable to do so having regard to the interests of council taxpayers in its area".¹²⁵ Brandon Lewis highlighted the power that local authorities have in discounting business rates: "They can use it in a really targeted way that is appropriate to their local area, because they will know best—they will know what High Street, what part of business in their area, needs that extra bit of boost that that kind of discount can give".¹²⁶ He later repeated this point:

Small business rate relief is a hugely important part of that, but I would come back to [the point] that the onus has to be on those local authorities to understand that their long-term benefit, as a community and as a financial institution as a council, relies on the business rates retention scheme.¹²⁷

80. However, many local authorities are not in a financial position to discount business rates. As Martyn Hulme, Managing Director, Co-operative Estates, told us, "There is this tension for local authorities in terms of raising revenue and the choices they have. It starts a downward spiral, in my opinion".¹²⁸ A Parliamentary Written Answer for 31 October 2013 revealed that only 59 out of 326 local authorities had granted relief since April 2012, totalling £8,234,500.¹²⁹

Small business reductions

81. One of two multipliers is applied to the rateable value of the property when calculating Business Rates: the small business multiplier; or the standard multiplier. The standard multiplier is calculated *after* the small business multiplier to ensure that the small business multiplier does not lead to a reduction in revenue. In 2003, the Government introduced Small Business Rate Relief, which introduced the following help for small businesses:

¹²⁵ Localism Act 2011, explanatory notes, para 159

¹²⁶ Q376

¹²⁷ Q394

¹²⁸ Q229

¹²⁹ HC Deb, 31 October 2013, col 568W

- Properties with a rateable value of below £6,000 would be subject to a 50% discount. This has been increased to a 100% discount from September 2010 until April 2014;
- Properties with a rateable value of between £6,001 and £12,000 would be subject to a tapering discount, ranging from 0% to 50%, on the basis of 1% relief for every £120 of rateable value. A taper to 100% relief has been in place since September 2012, applying until April 2014;
- Properties with a rateable value of between £12,000 and £17,999 (£25,499 in London) would be subject to the small business multiplier only.¹³⁰

82. The Autumn Statement gave further welcome relief specifically aimed at small businesses, with the Chancellor announcing the following measures:

- The doubling of the Small Business Rate Relief to be extended for a further 12 months until 31 March 2015, which means that properties with rateable value of below £6,000 are not subject to any Business Rates;
- Properties with a rateable value of between £6,001 and £12,000 are subject to a tapering discount ranging from 0% to 50%, on the basis of 1% relief for every £120 of rateable value. A taper to 100% relief is in place until 1 April 2015;
- A discount of up to £1,000 against Business Rates bills for retail premises (including pubs, cafes, restaurants and charity shops) with a rateable value of up to £50,000 in 2014–15 and 2015–16;
- Ratepayers receiving Small Business Rate Relief who take on an additional property that would currently disqualify them from receiving relief will continue to receive the Small Business Rate Relief for a further 12 months.¹³¹

83. Much of our evidence highlighted the plight of small businesses, due to the fact that business rates are disproportionately high compared with rent. Bank Machine—a wholly-owned subsidiary of Cardtronics Inc—wrote that the rating of Automated Teller Machines (ATM) cash machines disproportionately impacted on the operational costs of independent ATM operators:

There has in recent years been a trend towards some Councils imposing Business Rates on cash machines. [...] If Business Rates were extended to all cash machines, 20% of Bank Machine's 4,300 machines would become uneconomic and would have to be removed, and/or the cost of accessing cash would have to be significantly increased. Imposing Business Rates on cash machines is like imposing a tax on people accessing their cash. A tax on cash will have far reaching consequences, some on individual citizens, some on local businesses and some for the economy as a whole.¹³²

130 House of Commons Library standard note, *Business Rates*, September 2013, page 5

131 HM Treasury, *Autumn Statement*, 2013, pp 45 and 46

132 Ev w20

Evidence from Bank Machine called for local authorities to be placed under a duty to identify small businesses:

Local authorities need to be placed under a duty to identify eligible small businesses, to make this fully automatic and ensure all are awarded Small Business Rate Relief (SBRR). Councils should make greater use of the wide range of reliefs they are able to offer to small rural firms. In a nutshell, lowering business rates on ATMs would stimulate economic activity.¹³³

84. What is clear is that the Government is keen to help small businesses, and the measures set out in the Autumn Statement are a testament to that. However, the piecemeal approach to helping small businesses does not address the more fundamentally unequal basis of the tax. As the British Property Federation wrote:

The constant tweaks Government has to make to relieve the burden on small businesses also raises questions about the basis of this tax. To some extent the rates burden should self-adjust at times of revaluation, redistributing the load between those prospering and those suffering decline.¹³⁴

The Autumn Statement came after the conclusion of our evidence sessions, and we were therefore unable to question witnesses on it.

85. While we welcome the measures introduced in the Autumn Statement 2013 to help small businesses further in relation to Business Rates, the Government is not addressing fundamental flaws in the way in which Business Rates are calculated. The short-term tweaking of the Business Rates system is building up problems for the future and, instead, the Business Rates system need fundamental reform.

86. As a start, the Government must study the level of taxation placed on small and medium retail businesses compared with the level of taxation placed on large retail companies. It should also provide clear guidance that Councils are able to, and should be encouraged to, exempt ATM cash machines, in line with arrangements for small business rate relief.

Empty property rates

87. Until April 2008, an empty property was subject to three months' exemption from Business Rates from the date of becoming empty. After this period, owners of an empty property paid 50% of the Business Rates liability arising on the property. This was raised to 100% liability from 1 April 2008. The British Property Federation highlighted the problem of empty properties, with the accompanying empty property rates:

Empty rates ultimately drive money away from where it is most needed in helping to maintain and regenerate the high street and is instead steered to fund other Government spending. Empty units not only mean lost revenue for landlords but the double costs of empty rates with loss of rent has meant that savings, which otherwise

133 Ev w20

134 Ev 171

would have been reinvested back into units, are being eroded away to pay this tax. Research conducted by RICS indicated that 89% of their membership felt that empty property rates was restrictive to economic growth and had a negative effect on investment across the sector.¹³⁵

Pilot scheme for empty shops on the High Street

88. When giving evidence, Professor Bamfield, Director of the Centre for Retail Research, told us that “business rates are horrific in some areas. We should consider financial incentives for new entrants, i.e. new people who want to practise retailing and perhaps will be the new Tesco or Sainsbury’s in 20 years’ time”.¹³⁶ While we welcome the Autumn Statement 2013 attempt to regenerate the High Street, by giving a 50% discount on Business Rates for 18 months—between 1 April 2014 and 31 March 2016—to traders moving into a vacant property on the High Street, this does not go far enough.¹³⁷

89. *We are Pop Up* is a company that helps businesses to find short-term commercial space for different uses, including retail. In the Autumn of 2013, it organised a petition to promote 100% small business rates relief. Roger Wade, Chief Executive of Boxpark—the first PopUp mall in the country—submitted written evidence, which explained the proposal:

The Government should be encouraging PopUp units across Britain and offering business rates relief for qualifying small business tenants. This is potentially a sustainable solution to revitalising our empty High Streets. PopUps are the future breeding ground for the next generation of independent Retailers. We recommend a qualifying small business tenant can claim up to three months rates relief once per calendar year. The qualifying business could be administered by an Independent Pop Up organisation like *We Are Pop Up*, *Pop Up Britain* or similar body.¹³⁸

He went on to describe the benefits of such a proposal:

The small business tenant can test out business concepts at relatively low set up costs. The landlord can fill empty units and qualify for up to three months Business Rates relief and hopefully develop a long-term tenant. The Government can fill empty stores and hopefully after three months generate long-term business rates.¹³⁹

90. The PopUp campaign was signed by 665 supporters, many of whom posted comments. The following quotes are a selection of these:¹⁴⁰

I want to see more independent and creative projects taking root across the UK. The Government’s support is critical for a sustainable initiative to work.

135 Ev 171

136 Q234

137 HM Treasury, *Autumn Statement 2013*, pp 45-46

138 Ev w21

139 Ev w21

140 Unprinted Paper, *We are PopUp: Boxpark Rates Relief Proposals-Comments sent to Committee*

We need to enliven out high street and open it up to more independents and see less monopoly within our shopping centres. How we shop is changing, our shopping centres and high streets need to adapt.

As an owner and director of a small business, I think pop-up and temporary stores are a great way of encouraging more entrepreneurship especially amongst young people. Anything that can be done to make entry into retail business more accessible can only be a good thing.

Small businesses are the jobs engine of the British economy. This initiative will help businesses start-up, survive and thrive.

Vital for small business to get off the ground and stop the high streets becoming charity only shops.

Many of our Shoreditch Works members are small businesses who work in large shared offices, thereby making the small business relief unavailable. This 3-month discount would bring down the costs of working in shared facilities further, allowing more companies to work in these collaborative and start up-friendly environments.

It seems to be an economically cost-free initiative to use currently unused assets and encourage new businesses and employers. What's not to like?

91. The current initiative to help bring empty shops back into use is not working, as shown by the poor take up of the £10 million Government fund set up in 2012 set up specifically for this aim.¹⁴¹ A 100% discount on Business Rates for three months for businesses occupying empty premises has the potential to revitalise areas by encouraging innovation and independent businesses. Such periods of non-payment could have a stimulating effect on a specific area.

92. The high costs of Business Rates are preventing new entrepreneurial businesses from appearing on the High Street. We welcome the Autumn Statement's announcement that businesses moving into high street properties that have been vacant for a year or more will have their rates cut by 50% for 18 months. However, we believe that the Government must go further. We recommend a six months' Business Rates amnesty on businesses occupying empty properties. This support would be an economically viable model for the Government, as it would not only support those small businesses, but could also regenerate the High Street by occupying empty shops, and by giving local areas renewed vibrancy as community hubs.

93. We support the emergence of PopUp shops; they are an excellent example of innovation in the retail sector, but are adversely affected by an inflexible Business Rates structure. In any review of Business Rates, specific attention should be given to PopUp shops, and ways in which more can be encouraged to participate in the High Street.

Other rate reliefs

94. Charity shops benefit from an 80% reduction in business rates, which can be increased to 100% at the local authority's discretion. Meryl Halls, Head of Membership Services at the Booksellers Association, told us:

I put charity shops on my list of concerns for bookshops, because Oxfam actually has more outlets selling books than Waterstones, and they are benefiting from a fantastic range of relief. It would be great to have the business rate system looked at, because often our members are teetering on the edge, and the rates can make all the difference between tipping them over and not.¹⁴²

95. Bill Grimsey outlined the flaws in the current rate relief for charities, using his own example of Focus DIY's empty premises being transformed into a charity for two weeks out of every six months, thereby avoiding the need to pay the full business rates. He said that "there are loopholes out there and the charity one needs buttoning up a bit, because it has allowed charities to morph into retail chains and it has allowed landlords to exploit other charities to get rate relief, and that should stop".¹⁴³ Rodney Atkinson went further, writing: "Charity shops with their lowly or non-paid workers and freedom from Business Rates (paid for by other shop keepers) must pay proper wages and rates so that other retailers are not burdened to finance their subsidies".¹⁴⁴

96. The Charity Retail Association, defended the current reduction in Business Rates for charity shops:

Charity shops rely on business rate relief to remain profitable and raise over £220 million every year for charity. This ability to raise unrestricted income is particularly critical at a time when grants and other public sector funding for the voluntary sector is being reduced. It also helps maintain occupied units on the high street, with charity shops often investing considerably in re-fitting shops and investing in neglected shopping parades. This in turn can attract both shoppers and other retail tenants.¹⁴⁵

The DCLG Minister, Brandon Lewis, also upheld this view:

I think it is right that we give advantages and discounts to charity shops, but equally I think—to an extent, I suppose it could be seen to be politically incorrect to say this—that actually we undervalue charity shops. In some areas, they get quite a bad press when, in reality, they can be a huge part in bringing footfall back in. [...] What we are also seeing starting to grow now through charity shops is they are not just shops; some of them in themselves are becoming a community hub, where they will have tea and coffee or where people meet. That in itself is also very important.¹⁴⁶

142 Q280

143 Q373

144 Ev w16

145 Ev w37

146 Q403

97. Charity shops play an important part in our High Streets, by raising much-needed revenue for good causes and by providing a community space for local shoppers and volunteers. However, charity shops benefit from 80% relief on business rates, and this blanket reduction has loopholes which can be abused by businesses purporting to be charities. It also has the potential for charities to threaten other shops, especially bookshops, which have to pay the full amount of business rates. The Government needs to outline tighter definitions on what constitutes a charity shop, and to report on its findings by the Autumn of 2014.

Wholesale Reform

98. In the previous section we highlighted specific changes which would alleviate the burden of Business Rates on the retail sector. While these changes were supported by the retail sector, a number of our witnesses argued for structural reform of this element of taxation.

99. Edward Cooke, Director of Policy at the British Council of Shopping Centres, told us which parts of the Business Rates were in need of reform: “[T]he revaluation needs to be looked at, the way that business rates are uplifted needs to be looked at, the whole system for retail needs to be considered”.¹⁴⁷ Martin Blackwell, Chief Executive of the Association of Town and City Management (ATCM) went further: “Fundamentally, the system is no longer fit for purpose. To have a system that is based on fixed capital and fixed premises is no longer current in today’s world. The world has changed hugely in the five years since the last revaluation in 2008”.¹⁴⁸ The ATCM’s evidence stated that “The first step for creating the right conditions for adequate investment is a complete overhaul of the business rates system. We fear that the current system has a perverse effect on commercial investment in town and city centres”.¹⁴⁹

100. The Association of Convenience Stores also highlighted the inequality embedded in Business Rates on the retail sector:

The relationship between cost of property and business viability in retail (especially in town centres) is increasingly unsustainable and radical reform is required. Business rates continue to be a significant barrier to growth.

101. The changing nature of the retail sector was described at the start of this Report, and Mark Lewis, Online Director at John Lewis, highlighted this changing nature as the reason why a review was necessary:

We are seeing an industry that is in a period of dramatic change: in operations within the country, shifts of patterns from one channel to another, the blending of channels, and, then, also the breakdown of geographical barriers to trade. This creates great opportunities for retailers to trade internationally and also for overseas retailers to

147 Q101

148 Q173

149 Ev 159

trade into the UK. From our perspective, a review of the taxation structure in the round would be very welcome.¹⁵⁰

Martyn Hulme, Managing Director, Co-operative Estates agreed that “it would be worth having a clear look at that form of taxation in a more enlightened way of business, as it stands today”.¹⁵¹ Liz Peace, Chief Executive of the British Property Federation, stressed the need “for a fundamental rebalancing of Business Rates between traditional retail and the less traditional forms of retail. I know it is not easy, but if you were to look at the turnover per pound of Business Rate paid in a little high-street shop compared with an ASOS warehouse or something like that, it would be fundamentally different”.¹⁵²

102. Intu Properties plc, shopping centre owner and operator, suggested the following issues that could be addressed:

Reviewing the impact of the 2008 changes to empty rate relief and assessment of the merits of reinstating the previous system;

Examining the link between the business rates multiplier and the Retail Price Index;

Consideration of the impact of transitional relief, which at present acts effectively as a subsidy to businesses in London and the South-East at the expense of business in less wealthy regions;

Assessment of alternatives to business rates.¹⁵³

R Hinds suggested a reduction in the rates burden borne by the retail sector, by the following means:

Simplest would be a reduction in retail rates, which might not cost anything in the long run if it helped to increase economic activity, but we understand that the books have to be balanced in the short term so, at the very least, a rebalancing—town centre retail rates reduced, while edge of town, retail warehouse and out of town shopping rates remain the same or increase. At the same time, town centre office space might remain the same while other office and warehouse space would increase.¹⁵⁴

103. The latest Strategy for Future Retail, published by BIS in October 2013, stated that:

Business rates have an impact on both retail and non-retail sectors. The needs and concerns of retailers on the business rates system are well expressed across many forums, many consultations and many arenas, and this strategy does not seek to duplicate this.¹⁵⁵

150 Q207

151 Q229

152 Q249

153 Ev w53

154 Ev w45

155 BIS, *A Strategy for Future Retail*, October 2013, p 25

Brandon Lewis, DCLG Minister, reiterated the fact that Business Rates are for retail and non-retail businesses, and that “about 25% of all business rates is retail”.¹⁵⁶ But this is not sufficient reason to resist a review of the system. The current system was established when the High Street was a different trading place than what it is today. The Government has praised the Portas Review, yet has not implemented its recommendations that relate to Business Rates:

Government should consider whether business rates can better support small businesses and independent retailers;

Local authorities should use their new discretionary powers to give business rate concessions to new local businesses;

Make business rates work for business by reviewing the use of RPI with a view to changing the calculation to CPI.¹⁵⁷

104. The weight of our evidence stressed the importance of a fundamental review of Business Rates, including the method of revaluation. Unlike corporation tax or income tax, it is not modified or amended in response to underlying economic conditions. Ken Parsons, Chief Executive of the Rural Shops Alliance, agreed:

For a lot of people, you look at the accounts and the rates bill does not actually seem to be a very big figure, but the key thing is it is a fixed cost. It is there whatever your profit, whatever your business, is doing that year. If one were going to revise the system, then I would very much argue for something that was much more related to the performance of the business, rather than being a fixed cost year after year, irrespective of trading conditions.¹⁵⁸

Alternative ways of calculating Business Rates

105. With the increasing use of the Internet for retail transactions, another alternative way of calculating Business Rates would be to base the tax on sales, rather than on rents or rateable value. Helen Dickson, Director General of the British Retail Consortium, made the following point to us:

We need to take into account the Treasury’s need to balance its books in the current economic climate. What we perhaps need to bring more effectively into the equation is looking at a closer link to how well a particular store is trading. At the moment there is no link between business rates and that.¹⁵⁹

106. Business rates are a tax on property, and some questioned the fairness of such a system. Tim Fallowfield, Corporate Services Director at Sainsbury’s, told us the following:

You can look at the existing system and decide whether you need to change the component parts of business rates, or you can do a fundamental review of the

¹⁵⁶ Q380 and Q376

¹⁵⁷ *Portas Review*, recommendations 6, 7, and 8

¹⁵⁸ Q283

¹⁵⁹ Q22

business-rates system itself. In the United States, for instance, they have introduced a main-street fairness tax, which is redistributing the tax burden by applying effectively a local sales tax, which would obviously apply equally to online retailers and bricks-and-mortar retail. We would suggest that would be a very worthwhile review by Government—to try to make sure there is a level playing field.¹⁶⁰

107. It was argued that revaluation should be more frequent than the current five years. Edward Cooke, from the British Council of Shopping Centres, told us that “the five-year quinquennial review should be shorter”.¹⁶¹ The National Franchised Dealers Association (NFDA) said of Business Rates:

In 2011 and 2012, business rates rose sharply, resulting in an increased revenue for the Treasury of over half a billion pounds. Business rates are one concern common to all retailers whereby action would support businesses across all sectors. Business rates are calculated regardless of turnover and in a climate where consumer spending is falling these taxes are huge burdens to struggling organisations. Given that the planned 2015 business rates revaluation has now been deferred to 2017, NFDA recommends that any increase in line with inflation is cancelled until the 2017 revaluation.¹⁶²

108. Written evidence from the British Retail Consortium (BRC) stated that:

The debate about business rates is essentially the debate about the future shape of our cities, our town centres, our high streets and our communities. Whilst retailers are a central player in all of these, there are many partners, large and small, and all have views about what needs to be done. The BRC believes it is essential to identify the barriers to future growth and development and the drivers for decline, and then offer proposals and solutions—backed up by sound research, evidence and data—to central and local government that can be delivered together. To this end, the BRC has recently appointed tax experts EY to support a rigorous process of examining the options for reform of the business rates system.¹⁶³

The BRC published its discussion paper, *The Road to Reform*, in February 2014, which outlined possible options for reviewing the Business Rate system. It is due to publish the results of its options assessment in May 2014.¹⁶⁴

109. This BRC-commissioned, Ernst & Young research into the Business Rates system was discussed in our final oral evidence session. When asked about this review, the DCLG Minister Brandon Lewis told us that “when anybody comes forward with any research, it is always interesting to have a look at it”.¹⁶⁵

160 Q228

161 Q101

162 Ev w73

163 Ev 177

164 British Retail Consortium, *Business Rates: the Road to Reform*, February 2014

165 Q377

110. In his Autumn Statement 2013, the Chancellor finished his announcement of help to alleviate the pressure of Business Rates with a promise of “reform of Business Rates on the agenda for 2017 revaluation”.¹⁶⁶ However, when the DCLG Minister, Brandon Lewis, was questioned at the CLG Select Committee on 9 December 2013, he explained that ‘reform’ meant ‘administrative reform’:

The review in terms of improving administration is looking at reforms to appeals and how we change it so businesses can pay over 12 rather than 10 months, which helps cash flow somewhat, as we have done for council tax.¹⁶⁷

He repeated the phrase he used at our Committee: “The Treasury keep all taxes under review at all times”, and went on to say:

I know that the British Retail Consortium has some work of its own going on at the moment. If anybody wants to make suggestions we can feed through and have a look at, I am always interested.¹⁶⁸

111. Rather than being ‘always interested’ in suggestions, as the DCLG Minister told us in relation to a review of Business Rates, we feel that—given the widespread discontent among retailers about the blatantly unfair tax imposed upon them—it is incumbent on the Government to take the initiative and to carry out its own review. Indeed, the Prime Minister has said that longer-term reform of Business Rates needed to be looked at:

I think we do need to look at longer-term reform. It’s not going to be easy, because rates raise, whatever it is—around £24 billion—and I don’t think there is any one solution that is going to make everybody happy. But I think we’ve got to start addressing this issue and understanding—particularly this issue about internet retailing and High Street retailing. [...] It’s going to be a growing issue, and I think it needs more work.¹⁶⁹

112. Longer-term reform has to be addressed, given the fact that the United Kingdom has the highest property taxes in the world, as shown by the table below:

166 Autumn Statement 2013, Hansard, 5 December 2013, c 1111

167 CLG Committee oral evidence session, 9 December 2013, Q145 and Q146

168 Q182

169 *Supporting small businesses: David Cameron’s Q&A at the Federation of Small Businesses, 27 January 2014*

OECD taxes on property, as a percentage of gross domestic product¹⁷⁰

Rank (in 2012)		2011	2012
1	United Kingdom	4.2	4.2
2	France	3.7	3.9
3	Canada	3.3	3.3
4	Belgium	3.2	3.4
5	Israel	3.1	2.9
6	United States	3	3
7	Korea	3	2.8
8	Japan	2.8	2.7
9	Luxembourg	2.6	2.7
10	Iceland	2.4	2.5
11	Australia	2.3	..
12	Italy	2.2	2.7
13	New Zealand	2.1	2.1
14	Switzerland	2	2
15	Spain	1.9	2
16	Denmark	1.9	1.8
17	Ireland	1.9	1.8
18	Greece	1.8	2
19	Netherlands	1.3	..
20	Poland	1.2	..
21	Norway	1.2	1.2
22	Finland	1.1	1.2
23	Turkey	1.1	1.2
24	Hungary	1.1	0.9
25	Portugal	1	1.3
26	Sweden	1	1
27	Germany	0.9	0.9
28	Chile	0.8	0.9
29	Slovenia	0.6	0.7
30	Austria	0.5	0.6
31	Czech Republic	0.5	0.5
32	Slovak Republic	0.4	0.4
33	Mexico	0.3	..
34	Estonia	0.3	0.3
	OECD-Total	1.8	..

OECD, last updated 17 January 2014

113. *The pace of change in the Retail Sector means that the Business Rate system, in its current form, is not fit for purpose. The Government must act by carrying out a wholesale review of the current Business Rate system, which is urgently needed not only for the Retail Sector, but for other business sectors that are also being affected. The Department for Business, Innovation and Skills needs to initiate urgent discussions with the Treasury and DCLG, to prepare the ground for a full scale review and reform of Business Rates, which will allow retail businesses, especially small and medium-sized businesses, not only to survive, but to flourish in the current economic climate. The Government has widely praised the Portas Review, yet has not acted on what we believe is a vital recommendation—a review of the basis of the calculation of Business Rates. The Government must review the whole system—involving local government and retail sector organisations—and not simply tinker around edges by reviewing the administrative details of collecting Business Rates. Indeed, the Prime Minister has agreed that a longer-term reform of Business Rates needs to be looked at. The Government’s review must include: whether retail taxes should be based on sales, rather than property; whether the retail sector should have its own form of taxation, calculated in a different way from other businesses; and how frequently the revaluation of Business Rates should take place.*

6 Cross-Departmental issues

The Retail Strategy covers issues directly within the remit of BIS, but should be a cross Government strategy. [The Association of Convenience Stores]¹⁷¹

Current positions

114. We acknowledge the good work of the Communities and Local Government (CLG) Committee. There are important issues, such as parking and upward-only rent reviews, which sit within the remit of the CLG Committee, and we welcome their work on these issues. However, it was evident from our final oral evidence session that the retail sector sits rather uncomfortably between the two Departments. The majority of questions asked to both Ministers were answered by the DCLG Minister, Brandon Lewis. When this point was raised, the BIS Minister, Michael Fallon reassured the Committee that the retail sector was a BIS responsibility:

It is a BIS responsibility because it is business. It is a sector in business, but of course it cuts across many other areas of government. I work very closely with DCLG on issues like Business Rates and Small Business Rate Relief. We work with the Department of Health, for example on older customers. We work with Treasury right across Whitehall. The overall responsibility for the retail sector has to sit somewhere, and I think business is the most appropriate Department for it to sit in.¹⁷²

He went on to describe his work with the retail sector:

I have regular meetings with the Retail Policy Forum, which is centred in the Department for Business and is attended by the Retail Consortium, the Association of Convenience Stores and so on. That meets very regularly. I attended a meeting of it last week. It is my job to keep in touch with the major organisations, like the Consortium, the Association of Convenience Stores and the major retailers, and that is something that I do regularly. Other business Ministers, of course, participate in other aspects of that. For example, the Minister for Skills is involved in the skills that are needed in the retail sector and so on. If you are looking for a Minister for retail, it is me.¹⁷³

When pressed on the fact that the forum only meets three times a year, Michael Fallon insisted that “we see the major retailers regularly. There is constant interaction between us, and I make sure the retail sector is represented”.¹⁷⁴

115. In its written evidence, The Government stated that “within Government, DCLG and BIS are working together on delivery of national and local projects such as the Retail

171 Ev 148

172 Q409

173 Q410

174 Q411

Pathfinder, a key component of the BIS Retail Strategy, and ensure joint representation on forums where appropriate”.¹⁷⁵ Brandon Lewis, DCLG Minister, was definite about where the separation within the retail sector lay: “My responsibility at DCLG is about the High Street and town centres. I need to clarify: there is a difference between that and retail, which falls entirely within Michael’s remit”.¹⁷⁶

116. The British Property Federation wrote that the implementation of the Portas recommendations “has been hampered by instability, the creation of a number of Forums which have then been disbanded, Ministerial change and high staff turnover”. It added that

These issues have been further hindered by the fact that work on the implementation of the Portas recommendations has been cross-departmental and as such continues to lack a central delivery driving force.¹⁷⁷

Jonathan James, Chairman of the Association of Convenience Stores, told us that the issues concerning the retail sector extended beyond BIS:

We have collaborated with the Department on its retail strategy and we very much support it. Its focus on reducing the burden of regulation, sharing knowledge and harnessing localism to deliver business-friendly policy are good, important intentions. However, we are concerned that it is limited in scope and intent. It sits only within the remit of BIS and yet many of the big issues facing the retail sector are the responsibility of other Government Departments. We believe that strategy that makes a real difference has to cover controversial issues such as business rates, town-centre versus out-of-town planning and resisting temptation to impose further regulatory burden in politically sensitive areas such as alcohol licensing.¹⁷⁸

117. David Owen, Chief Executive of GFirst Local Enterprise Partnership, told us that while he welcomed the strategy, he wanted the issue of retail to be higher on the BIS agenda:

We are very supportive of BIS’s Retail Strategy, and the fact that BIS has a retail strategy. We have had great support from what is a very small retail team within BIS. If we were asking for one thing, it would be to see retail come slightly higher up the pecking order in BIS, so that it is given the significance that it deserves as a sector that employs 3 million people in the UK.¹⁷⁹

We asked the Department the size of the retail team within BIS. They told us that, out of a total number of 2,420 people working in the Department:

175 Ev 119

176 Q426

177 Ev 170

178 Q47

179 Q249

There are nearly 100 people in BIS working on issues that impact on the retail sector. This does not include officials in other Government Department such as DCLG with their focus on High Streets.¹⁸⁰

We agree with David Owen that nearly 100 people working on the retail sector, out of a total of 2,420 BIS staff, is an extremely small team, given the amount of revenue and jobs that the retail sector generates, and given the precarious state that the High Street is in.

118. The BIS Minister, Michael Fallon, was keen to tell us of the regular meetings he attends in relation to the Retail Sector. The BIS Department employs just over 4% of its staff to work on the Retail Sector, and does not consider that retail should be included in an Industrial Strategy. BIS should be leading co-ordinated work with other relevant Departments, in order to facilitate a more practical and direct approach to the issues facing the retail sector, the most urgent and important of which is Business Rates. While the Department for Communities and Local Government has an important role to play in guiding local authorities on parking, pavement furniture, planning, and so on, which all have an impact on retail, the Department of BIS must take the lead in the strategic overview of the Retail Sector.

7 Conclusion

This is an exciting—and volatile—time for retail. [BIS Retail Strategy]¹⁸¹

119. The most recent BIS Retail Strategy states that:

This is an exciting—and volatile—time for retail. There is a difficult economic climate, there are fundamental shifts in the retailer/customer relationship, there are great opportunities but also dangers for retailers of all sized and types, in all locations.¹⁸²

120. Without doubt, the retail sector is continually evolving. Much of the evidence submitted to this inquiry was testament to innovative, fast-moving aspects of the retail sector. However, the fast moving pace of the retail sector means that the traditional home of retail—the High Street and the town centre—are under threat. We do not advocate going back to a bygone age of the retail sector. Indeed, the emergence of PopUp shops illustrates the fact that you do not have to be a big player to function effectively in the retail sector area. Also, the area of skills needs to evolve and be fit for purpose for the new multichannel transactions. However, the rapid evolution of the sector has a knock-on effect on the built environment. The physical location, where shops are or have been located, is important because that space means more than just retail. That space is a community hub, which equates to more than whether shops are present or not. Flourishing shops are better than boarded-up shops, in economic terms, and in relation to the social cohesion and fabric of our communities.

121. The Business Rate system is a significant barrier to innovation. Therefore, to allow retail to continue to operate in the High Street and, most importantly, to allow Start Ups to reinvigorate the sector and our Town Centres, Business Rates must be addressed. Clear, decisive action needs to be taken. If there is one thing that this Report urges the Government to do, it is to reform Business Rates. For retail, and other enterprises, to continue on the High Street, the Business Rates system must be addressed urgently.

122. The Government’s retail strategies are full of good intentions, yet they do not seriously address what, to our minds, is the most crucial deterrent to new businesses appearing on the High Street and the most debilitating levy on existing businesses: Business Rates. Fewer Government strategies are needed. Instead, there should be simple, decisive action. Without a wholesale review, resulting in a new way of calculating Business Rates, the High Street—and with it community hubs attached to those centres—will fester. As the Government Strategy states, “This is an exciting—and volatile—time for retail”, and the volatility should be kept to a minimum by reviewing Business Rates so that businesses on the High Street can have a fighting chance of surviving and flourishing.

181 BIS, *A Strategy for Future Retail*, p 2

182 BIS, *A Strategy for Future Retail*, p 2

Conclusions and recommendations

In the report conclusions are shown in **bold**, recommendations are shown in ***bold italics***. In this list, recommendations are shown in *italics*.

Portas Pilots

1. *The Government allocated £2.3 million to fund the Portas Pilots, yet has not been able to provide evidence of how or indeed whether that money has been spent by local authorities. In its response to this Report, the Government should include how much of that money has been spent, as was promised to us by the DCLG Minister in October 2013. There is no readily-available data on the allocation of the funds, and, as far as we are aware, no organisation is auditing the funds. While we appreciate the fact that the Department for Communities and Local Government is responsible for this funding, the Department for Business, Innovation and Skills has the policy lead for retail and must ensure that data is made available on whether and how the Portas Pilot funding has been spent. These are public funds and, therefore, the use of this money needs to be assessed for value for money, and effectiveness. Together, the BIS and CLG Departments must decide how this assessment is carried out. (Paragraph 14)*

BIS Retail strategy

2. We recognise the good intentions behind the Portas Review and the brief Government retail strategies of 2012 and 2013, and the documents have resulted in useful national discussions about the retail sector and, specifically, the demise or otherwise of the High Street. However, the Portas Review stressed the need for a review of Business Rates, while the Government strategies mentioned Business Rates only in passing. Furthermore, the strategies demonstrate a deliberate ‘hands-off’ approach to many of the issues facing the retail sector, and instead encourage local communities, including local authorities, businesses and organisations, to boost their own local areas. However, this encouragement comes without any meaningful finance or any coherent and effective plan. (Paragraph 21)
3. *We are not convinced that the success of the Retail Sector should be given as a reason for it not needing an industrial strategy. As with other sectors where Industrial Strategies are proposed to build on areas of strength, there is an opportunity to use policy to support even greater success in the future. The Government should include the retail sector in its Industrial Strategy programme, and we recommend that the Government rectifies this omission at the earliest opportunity. (Paragraph 24)*

The High Street

4. With the dramatic rise in internet shopping, retail businesses are no longer locked into one way of working, and likewise, the High Street is no longer just about retail; it is also about creating a leisure experience, including opportunities for visiting cinemas, restaurants etc. However, for community hubs to survive and flourish, the

High Street needs support from the Government. We do not recommend that the Government spends huge sums propping up an outmoded way of retailing. However, we support calls for Government to help shops to remain on the High Street, and for new, independent shops to be able to open on the High Street, by reviewing the burden of Business Rates, which are still based on an outmoded pattern of retail. (Paragraph 34)

5. *The United States has a different tax structure, but lessons could be learned from its approach to local taxation and rent. We appreciate that this is complex, but it is something that the Government should explore as an alternative to the current system. The Government should look into encouraging a more flexible approach from landlords, and discouraging upward-only rent revisions. This would will result in a fairer and more sustainable system.* (Paragraph 35)

Local Enterprise Partnerships (LEPs)

6. The Government has placed the 39 Local Enterprise Partnerships (LEPs) at the forefront of supporting the local retail sector, yet many of them lack the necessary resources and influence to succeed. The Secretary of State for the BIS Department acknowledged this to us in evidence. *The Government should call on LEPs to develop a strategy for retail, in order to demonstrate their commitment to the Retail Sector.* (Paragraph 41)
7. *Given the substantial contribution of retail to employment, we recommend that all LEPs consider appointing a retail representative on their board. For independent traders, this may not be feasible. However, national retail businesses should do more to encourage their local or regional management to participate in LEPs.* (Paragraph 42)

General Skills

8. *We recognise the important work that employers, unions, and the Government do in supporting people already in the workforce to continue to work and develop their skills. We were therefore disappointed that the Department did not highlight this work in its Retail Strategy. We recommend that the Department commits to continued financial support for the Union Learning Fund, which enables unions and employers to work together, providing employee training and support. LEPs could provide valuable assistance in this work.* (Paragraph 47)

Apprenticeships

9. *Apprenticeships are being used more frequently in the Retail Sector. They allow retail staff, who often leave school with few qualifications, to gain transferable, interpersonal skills. However, retailing is becoming a much more sophisticated industry, and those who work in the sector need to be more comprehensively trained. We support the work that employers do in training their workforce. The retail sector should be more ambitious about skills training, encouraging more staff to be trained at Level 3 and above. Furthermore, given the importance of tourism to the United Kingdom, consideration should be given to developing language skills to enhance the international consumers' retail experience.* (Paragraph 51)

Digital skills in the Retail Sector

10. *The changing nature of how people shop needs to be mirrored in the way in which staff are trained, to enable them to provide a more tailored service. The BIS Retail Strategy document published in 2012 made passing reference to skills needed for the retail sector, referring only to the need for a science, technology, engineering and mathematics (STEM) skills gap analysis. In its follow-up document a year later, A Strategy for Future Retail stated that an analysis of skills needed for high level mathematics, data analysis, and general digital skills to be completed by the Spring of 2014. In its response to this Report, the Government must outline the results of BIS's latest STEM skills analysis, and the timeline for the action that it will take. (Paragraph 55)*

Business Rates

11. *Both Business Rates and the high costs of rents are issues that affect the Retail Sector. The cost of Business Rates is increasing disproportionately to the cost of rents. The result is causing critical financial difficulties for many retail businesses, especially SMEs. This means that not only are those businesses suffering, and in danger of closing, but that some High Streets are becoming littered with shops that have closed down. This problem is exacerbated when rents do not reflect the economic realities. (Paragraph 65)*

Revaluation

12. *The delay in the planned 2015 Revaluation of Business Rates until 2017 has been severely criticised by many in the retail sector. The Government based its decision to delay the Revaluation on a 'high level estimate paper' written by Valuation Office Agency, which many organisations have criticised for its lack of firm evidence. Indeed the VOA itself littered the paper with caveats. The delay in the 2015 Revaluation of Business Rates means that, until April 2017, Business Rates will continue to be calculated on property rents set in 2008, before the recession took hold. In justifying the delay in revaluation, the Government referred to the fact that the retail sector represents only around a quarter of the businesses covered by Business Rates. This may be so, but it is a key quarter for driving the recovery. We urge the Government to ensure that during the time before the next revaluation, it works towards the complete reform of the revaluation system, one of the ambitions of which should be the annual review of Business Rates. (Paragraph 74)*

Business Rate link to RPI

13. *We welcome the Government's capping of the inflationary limit of Business Rates to 2% for 2014–15. However, because of the small business multiplier, those businesses in the retail sector that do not qualify for small business relief will see their business rates bills rise by 2.3% next financial year. Furthermore, this cap will apply for one year only. We urge the Government to reconsider this limited timeframe, and to stop permanently the linking of Business Rates to a single month snapshot of the Retail Price Index (RPI). Furthermore, the Government should carry out a review to ascertain*

whether RPI or CPI is the more appropriate index to which Business Rates should be linked. The 12-month average of the CPI or the RPI in the previous year, with a cap at 2%, is a far more appropriate level at which to set the annual Business Rate increase. This would be consistent with the recent limits on council tax increases, and in line with the Bank of England inflation target. (Paragraph 78)

Business Rate relief – Small business reductions

14. *While we welcome the measures introduced in the Autumn Statement 2013 to help small businesses further in relation to Business Rates, the Government is not addressing fundamental flaws in the way in which Business Rates are calculated. The short-term tweaking of the Business Rates system is building up problems for the future and, instead, the Business Rates system need fundamental reform. (Paragraph 85)*
15. *As a start, the Government must study the level of taxation placed on small and medium retail businesses compared with the level of taxation placed on large retail companies. It should also provide clear guidance that Councils are able to, and should be encouraged to, exempt ATM cash machines, in line with arrangements for small business rate relief. (Paragraph 86)*

Pilot scheme for empty shops on the High Street

16. *The high costs of Business Rates are preventing new entrepreneurial businesses from appearing on the High Street. We welcome the Autumn Statement's announcement that businesses moving into high street properties that have been vacant for a year or more will have their rates cut by 50% for 18 months. However, we believe that the Government must go further. We recommend a six months' Business Rates amnesty on businesses occupying empty properties. This support would be an economically viable model for the Government, as it would not only support those small businesses, but could also regenerate the High Street by occupying empty shops, and by giving local areas renewed vibrancy as community hubs. (Paragraph 92)*
17. *We support the emergence of PopUp shops; they are an excellent example of innovation in the retail sector, but are adversely affected by an inflexible Business Rates structure. In any review of Business Rates, specific attention should be given to PopUp shops, and ways in which more can be encouraged to participate in the High Street. (Paragraph 93)*

Other rate reliefs

18. *Charity shops play an important part in our High Streets, by raising much-needed revenue for good causes and by providing a community space for local shoppers and volunteers. However, charity shops benefit from 80% relief on business rates, and this blanket reduction has loopholes which can be abused by businesses purporting to be charities. It also has the potential for charities to threaten other shops, especially bookshops, which have to pay the full amount of business rates. The Government needs to outline tighter definitions on what constitutes a charity shop, and to report on its findings by the Autumn of 2014. (Paragraph 97)*

Alternative ways of calculating Business Rates

19. *The pace of change in the Retail Sector means that the Business Rate system, in its current form, is not fit for purpose. The Government must act by carrying out a wholesale review of the current Business Rate system, which is urgently needed not only for the Retail Sector, but for other business sectors that are also being affected. The Department for Business, Innovation and Skills needs to initiate urgent discussions with the Treasury and DCLG, to prepare the ground for a full scale review and reform of Business Rates, which will allow retail businesses, especially small and medium-sized businesses, not only to survive, but to flourish in the current economic climate. The Government has widely praised the Portas Review, yet has not acted on what we believe is a vital recommendation—a review of the basis of the calculation of Business Rates. The Government must review the whole system—involving local government and retail sector organisations—and not simply tinker around edges by reviewing the administrative details of collecting Business Rates. Indeed, the Prime Minister has agreed that a longer-term reform of Business Rates needs to be looked at. The Government’s review must include: whether retail taxes should be based on sales, rather than property; whether the retail sector should have its own form of taxation, calculated in a different way from other businesses; and how frequently the revaluation of Business Rates should take place. (Paragraph 113)*

Cross-Departmental issues

20. *The BIS Minister, Michael Fallon, was keen to tell us of the regular meetings he attends in relation to the Retail Sector. The BIS Department employs just over 4% of its staff to work on the Retail Sector, and does not consider that retail should be included in an Industrial Strategy. BIS should be leading co-ordinated work with other relevant Departments, in order to facilitate a more practical and direct approach to the issues facing the retail sector, the most urgent and important of which is Business Rates. While the Department for Communities and Local Government has an important role to play in guiding local authorities on parking, pavement furniture, planning, and so on, which all have an impact on retail, the Department of BIS must take the lead in the strategic overview of the Retail Sector. (Paragraph 118)*

Conclusion

The Government’s retail strategies are full of good intentions, yet they do not seriously address what, to our minds, is the most crucial deterrent to new businesses appearing on the High Street and the most debilitating levy on existing businesses: Business Rates. Fewer Government strategies are needed. Instead, there should be simple, decisive action. Without a wholesale review, resulting in a new way of calculating Business Rates, the High Street—and with it community hubs attached to those centres—will fester. As the Government Strategy states, “This is an exciting—and volatile—time for retail”, and the volatility should be kept to a minimum by reviewing Business Rates so that businesses on the High Street can have a fighting chance of surviving and flourishing. (Paragraph 122)

Formal Minutes

Tuesday 25 February 2014

Members present:

Mr Adrian Bailey, in the Chair

Mr Brian Binley
Paul Blomfield
Katy Clark

Mike Crockart
Ann McKechin
Robin Walker

Draft Report (*The Retail Sector*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 122 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Eighth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report (in addition to that ordered to be reported for publishing on 14 May, 25 June, 16 July, 29 October and 12 November 2013).

[Adjourned till Tuesday 4 March at 9.00 am

Witnesses

Tuesday 21 May 2013

	Page
Helen Dickinson , Director General, British Retail Consortium	Ev 1
Jonathan James , Chairman, and Shane Brennan , Public Affairs Director, Association of Convenience Stores	Ev 8
Edward Cooke , Director of Policy and Public Affairs, British Council of Shopping Centres, and Mark Williams , Chairman, Distressed Town Centre Taskforce	Ev 15

Tuesday 25 June 2013

Fiona Wilson , Head of Research and Economics, and Stephen Rydzkowski , Research Assistant, USDAW (Union of Shop, Distributive and Allied Workers)	Ev 22
Martin Blackwell , Chief Executive, Association of Town and City Management, and Sara Scott , Chair, Market Rasen Town Team	Ev 32

Tuesday 2 July 2013

Alex Gourlay , Chief Executive, Health and Beauty Division, Alliance Boots, Tony Wheeler , Head of Branch, Peter Jones, John Lewis, Mark Lewis , Online Director, John Lewis, and Tony Ginty , Head of Public Affairs, Marks & Spencer	Ev 40
Martyn Hulme , Managing Director, Co-operative Estates, Tim Fallowfield , Director of Corporate Services and Company Secretary, Sainsbury's, and David Hobbs , Director of UK Operational Strategy and Business Planning, Tesco	Ev 50
David Owen , Chief Executive, GFirst Local Enterprise Partnership, Professor Joshua Bamfield , Director, Centre for Retail Research, Alexandra Birtles , Head of External Communications, TalkTalk, and Liz Peace , Chief Executive, British Property Federation	Ev 57

Thursday 12 September 2013

Mary Monfries , Partner, and Matthew Tod , Partner, PricewaterhouseCoopers	Ev 66
Mark Walmsley , Chief Executive, ActSmart, Ken Parsons , Chief Executive, Rural Shops Alliance, and Meryl Halls , Head of Membership Services, Booksellers Association	Ev 71
Jane Rexworthy , Director of Skills Solutions and Head of National Skills Academy for Retail, National Skills Academy, and Martin-Christian Kent , Research and Policy Director, People 1st, National Skills Academy	Ev 76

Mike Davidson, Head of Retail Operations, Land Securities, and **Peter White**, Executive Director, Marketing and Customer Services, Gloucestershire College Ev 83

Tuesday 29 October 2013

Bill Grimsey, businessman and author of *Sold Out: Who Killed the High Street?* and *The Grimsey Review: an alternative future for the high street* Ev 90

Rt Hon Michael Fallon MP, Minister of State, Department for Business, Innovation and Skills, and **Brandon Lewis MP**, Parliamentary Under-Secretary of State, Department for Communities and Local Government Ev 98

List of printed written evidence

(Oral and Written evidence is published in Volume II)

1	Department for Business, Innovation and Skills	Ev 114; Ev 147
2	Association of Convenience Stores	Ev 148
3	Association of Town and City Management	Ev 153
4	Boots UK	Ev 160
5	British Council of Shopping Centres	Ev 165
6	British Property Federation	Ev 169
7	British Retail Consortium	Ev 172; Ev 177
8	Co-operative Group	Ev 178
9	National Skills Academy for Retail	Ev 183
10	Rural Shops Alliance	Ev 186
11	TalkTalk Group	Ev 191
12	USDAW	Ev 193
13	Department for Communities and Local Government	Ev 195

List of additional written evidence

(published in Volume III on the Committee's website www.parliament.uk/bis)

1	Accessible Retail	Ev w1
2	Alliance for Intellectual Property	Ev w5
3	Association of Licensed Multiple Retailers	Ev w12
4	Rodney Atkinson	Ev w16
5	Bank Machine	Ev w19
6	Boxpark	Ev w21
7	British BIDs (Business Improvement Districts)	Ev w22
8	British Independent Retailers Association	Ev w23
9	Emma Brooksbank	Ev w27
10	CACI Limited	Ev w28
11	Charity Retail Association	Ev w36
12	Economic and Social Research Council	Ev w38
13	F Hinds	Ev w45
14	Hippodrome Casinos	Ev w46
15	Intu Properties plc	Ev w50
16	Local Government Association	Ev w60
17	Morrisons	Ev w62
18	National Federation of Retail Newsagents	Ev w64
19	National Federation of SubPostmasters	Ev w67
20	National Franchised Dealers Association	Ev w72
21	New West End Company	Ev w74
22	Petrol Retailers Association	Ev w76
23	Paul Turner-Mitchell	Ev w79; Ev w82; Ev w84

List of unprinted evidence

The following written evidence has been reported to the House, but to save printing costs has not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives (www.parliament.uk/archives), and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074; email archives@parliament.uk). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

We are PopUp – Boxpark Rates Relief Proposal: Summary of comments sent to Committee

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

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First Report	Women in the Workplace	HC 342-I/II/III(<i>Cm 8701</i>)
Second Report/First Joint Report	Scrutiny of Arms Exports and Arms Control (2013): Scrutiny of the Government's UK Strategic Export Controls Annual Report 2011 published in July 2012, the Government's Quarterly Reports from October 2011 to September 2012, and the Government's policies on arms exports and international arms control issues	HC 205
Third Report	The Kay Review of UK Equity Markets and Long-term Decision Making	HC 603(HC 762)
Fourth Report	Consultation on a Statutory Code for Pub Companies	HC 314
Fifth Report	Open Access	HC 99-I/II(HC 833)
Sixth Report	Draft Consumer Rights Bill	HC 697-I/II/III
Seventh Report	Payday Loans	HC 789

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First Report	The Hargreaves Review of Intellectual Property: Where Next?	HC 367-I/II(HC 579)
Second Report/First Joint Report	Scrutiny of Arms Export Controls (2012): UK Strategic Export Controls Annual Report 2010, Quarterly Reports for 2010 and January to September 2011, the Government's review of arms exports to the Middle East and North Africa, and wider arms control issues	HC 419
Third Report	Post Office Network Transformation	HC 84(HC 678)
Fourth Report	Overseas Students and Net Migration	HC 425(<i>Cm 8557</i>)
Fifth Report	Apprenticeships	HC-I/II/III(HC 899)
Sixth Report	The Insolvency Service	HC 675 (HC 1115)
Seventh Report	Too Little, Too Late: Committee's observations on the Government Response to the Report on Overseas Students and Net Migration	HC 1015(<i>Cm 8622</i>)
Eighth Report	Pre-appointment hearing of the Government's preferred candidate for the post of Groceries Code Adjudicator	HC 1011
Ninth Report	Local Enterprise Partnerships	HC 598

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First Report	The New Local Enterprise Partnerships: An Initial Assessment	HC 434 (HC 809)
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Second Report	Sheffield Forgemasters	HC 484 (HC 843)
Third Report	Government Assistance to Industry	HC 561
Fourth Report / First Joint Report	Scrutiny of Arms Export Controls (2011): UK Strategic Export Controls Annual Report 2009, Quarterly Reports for 2010,licensing policy and review of export control legislation	HC 686
Fifth Report	Government Assistance to Industry: Government Response to the Committee's Third Report of Session 2010–11	HC 1038
Sixth Report	Is Kraft working for Cadbury?	HC 871
Seventh Report	Rebalancing the Economy: Trade and Investment	HC 735 (HC 1545)
Eighth Report	Trade and Investment: China	HC 1421 (HC 1568)
Ninth Report	Time to bring on the referee? The Government's proposed Adjudicator for the Groceries Code	HC 1224-I
Tenth Report	Pub Companies	HC 1369-I/II (<i>Cm 8222</i>)
Eleventh Report	Time to bring on the referee? The Government's proposed Adjudicator for the Groceries Code: Government Response to the Committee's Ninth Report of Session 2010-12	HC 1546
Twelfth Report	Government reform of Higher Education	HC 885-I/II/III (HC 286)
Thirteenth Report	Pre-Appointment Hearing: Appointment of Director of the Office for Fair Access	HC 1811
Fourteenth Report	Debt Management	HC 1649 (HC 301)
Fifteenth Report	Stamp Prices	HC 1841-I/II