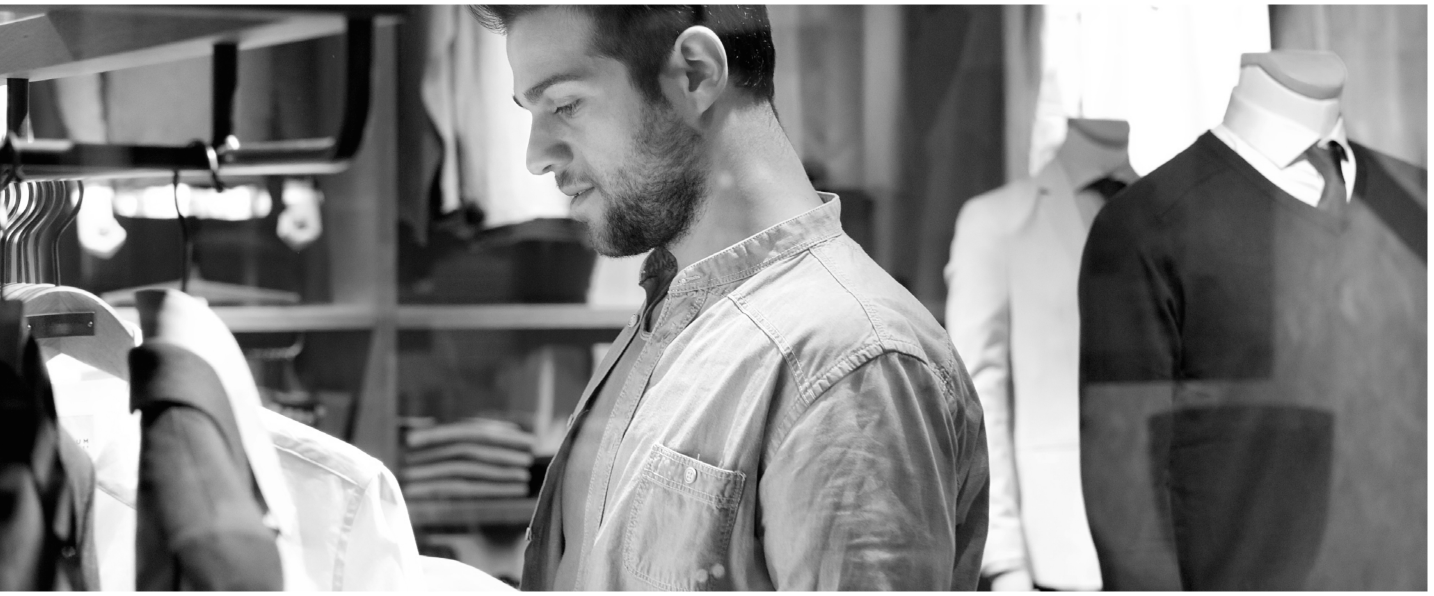
RETAIL, RATES AND RECOVERY:

How business rates reform can maximise retail's role in levelling up



Introduction

As the country begins to emerge from the Covid-19 pandemic, the government has set out an ambitious plan to 'build back better', driving economic growth and levelling up the whole of the UK by increasing prosperity across all regions of the country.

With a presence in every constituency of the country, and as a provider of flexible jobs for people from all backgrounds, retail has the potential to make a significant contribution to the government's priorities. Unfortunately, the burden placed on companies by business rates is holding back the industry's contribution.

The government is due to conclude its Fundamental Review of business rates in autumn 2021. Ahead of the publication of the review's final report, the BRC surveyed leading retailers to understand the impact rates have on their businesses. This report includes a summary of the key findings in the first section, with the survey results set out in the Annex.

The results reveal that, for many retailers, business rates are central to decision-making on shop closures and openings. Without reform, rates will lead to unnecessary store closures and job losses, with regions in most need of levelling up hit hardest.

By delivering on its stated aim in the Fundamental Review to reduce the rates burden, the government can maximise the contribution of the retail industry and its supply chains to the UK's economic recovery.

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KEY FINDINGS

83%

More than four in five (83%) retailers say it is 'likely', 'very likely' or 'certain' that they will close shops if the business rates burden is not reduced as a result of the Fundamental Review. According to our survey, property costs (rates and rent) are the single biggest factor in deciding whether to close a store.

These store closures would impact all regions of England. Given the disproportionate impact of business rates in regions most in need of levelling up, it is unsurprising to see retailers highlight the North and Midlands as areas where shops would close. Failure to reduce the rates burden will also inevitably lead to shop closures and job losses in the capital and South East.

85%

85% of retailers said that business rates are an 'extremely important' or 'very important' issue for their businesses when opening or closing stores.

Rates liability should be around 50% of rent but on average, rates are higher than rent in 25% of stores amongst businesses surveyed. The majority of these stores are in the North West, North East and West Midlands.

67%

In 67% of store closures in the past two years, business rates had a material impact in the decision-making process.

RETAIL & LEVELLING UP

Retail is a dynamic and diverse industry and has significant size and scale. It represents 5% of the UK's economy, contributes £99.5 billion GVA, and is the largest private sector employer in the country, providing over three million jobs across every region of the UK. Nationally, this is around 8.6% of all jobs , and, according to a report by WPI Strategy ***('Open for Business: The role of retail in levelling up across the UK')*** in those areas most in need of levelling up – the North, Midlands and Wales – this ratio is much higher. While they are a key part of communities the length and breadth of the country, 83% of retailers report that without a reduction in rates liability resulting from the Fundamental Review, they are 'likely', 'very likely' or 'certain' to close shops in those very regions where the industry has the greatest potential to support levelling up.

Retail is transforming due to new technology and changing shopping habits. More of us are now shopping online, with online sales growing by more than a third in 2020 although this doesn't mean the end of physical shops – far from it. Retailers increasingly see their online and offline operations as interconnected, with one supporting the other. What's more, eight of the ten largest UK retailers operate both online and on the high street.

In the future, the role of shops will evolve to include service provision, fulfilment and other purposes, further cementing their position as cornerstones of communities. But the viability of shops is threatened by the unsustainable rates burden. Property costs (rates and rent) are the biggest factor in deciding whether to close a store, but are also important in store openings. Overall, more than four-fifths of retailers say that rates are 'important' or 'extremely' important when opening or closing shops, highlighting the need for the government to ensure the tax rate is sustainable and incentivises investment in property.

Retail jobs are also transforming, becoming higher skilled and better paid; between 2008 and 2020, retail pay rose by 44%, compared to the UK average of 30%. The industry is a driver of social mobility, giving many people their first taste of the world of work, allowing them to develop lifelong skills and confidence and providing a wide range of entry-level roles and quality apprenticeships which help people build careers, upskill the UK's workforce and boost productivity. Many people also work in retail for the flexibility it offers, allowing them to work around other commitments. 60% of the retail workforce are women (compared to 48% nationally), and 24% of retail colleagues are under 24 (12% of employees in the UK as a whole). Retailers are committed to offering flexible jobs and developing their colleagues but if shops close as a result of the rates burden, the opportunities for employment and upskilling will be lost.

> Retail is at the heart of communities up and down the country and touches people's lives in a way few other industries can.
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Retail is at the heart of communities up and down the country and touches people's lives in a way few other industries can. Retailers provide vital services and are on the front line, helping implement government policies and effect positive change through responsible business practices. A vibrant high street also creates a sense of place, vital for the health and prosperity of any community.

A thriving retail industry, investing and creating jobs, can make a significant contribution to the government's levelling up agenda on all these fronts, but the business rates barrier must first be addressed.

BUSINESS RATES

The UK has the highest property taxes of any developed nation, and the burden falls heavily on retail, which is overtaxed relative to other sectors of the economy.

The burden of business rates undermines the potential contribution that the industry can make to levelling up. The UK has the highest property taxes of any developed nation, and the burden falls heavily on retail, which is overtaxed relative to other sectors of the economy. Retail accounts for 5% of the UK economy but pays 10% of business taxes and 25% of business rates. For some larger retailers, business rates account for half of their total tax bill. It is vital that this burden is reduced so that the industry is able to maximise its contribution to the economy. For many retailers, business rates liability is the difference between their business reaching its full potential and unnecessary store closures.

Without reform, the rates burden will also hold back entrepreneurial businesses from investing in new stores and creating jobs. According to *'Open for Business'* , the rates burden is higher on shops in the North, Midlands and Wales than those in the South and "in the most extreme examples, Bishop Auckland or Leigh, business rates can represent eight times the annual burden they do for a store in Surrey Heath, equivalent to over £800,000." This burden can be seen in store vacancy rates, where there is significant regional disparity. The BRC's survey found that on average, business rates are higher than rents on a quarter of shops, mainly located in the North and the West Midlands (rates should be around 50% of rent, given the current multiplier of 51.2p). According to the BRC's Vacancy Monitor, in Q2 2021, the overall GB vacancy rate increased from 14.1% to 14.5%. The North has been substantially harder hit than the rest of the UK – vacancies in the North East have risen to 20.6%, while London remains at 11.1%. Almost 70% of retailers surveyed reported that business rates had a material impact on the decision to close stores in the last two years.

With the Fundamental Review into business rates due to conclude in autumn 2021, the retail industry is at a crossroads. If the review does not result in a reduction of the rates burden, retail's contribution to levelling up ambitions will be stifled; shops will close, eroding the fabric of communities, and jobs will be lost unnecessarily, with consequences for social mobility and local employment across the country. But reform to cut the burden will unlock the industry's potential to support the economic recovery from the pandemic, ensuring that retail remains a provider of quality jobs and an important contributor to tax revenues for years to come.

CONCLUSIONS

01

Retail's size and scale, providing three million jobs in all parts of the country and making a significant contribution to social mobility and communities, means the industry is uniquely placed to support the government's priorities for post-Covid economic recovery.

02

Retail's potential to support the UK recovery is being held back by the business rates burden, which is contributing to shop closures and job losses, and acting as a barrier to investment across the country with regions most in need of levelling up the hardest hit.

03

By delivering on its commitment to reduce the business rates burden and reforming the administrative elements of the system, the government can maximise retail's contribution to levelling up, unleashing investment and growth across the country.

BRC's key recommendations for business rates reform are:

- To prioritise reducing the rates burden, by cutting the multiplier to 35p and setting it as any other tax, without reference to automatic annual increases
- To ensure valuations are more closely linked to actual market values, revaluations should take place at least every three years and more frequently if/when systems and technology allow
- To remove the anachronistic requirement for the business rates system to raise a fixed sum
- To abolish downwards phasing of transitional relief in full in the 2023 rating list
- To introduce an 'Improvement Relief' which would incentivise investment in property, boosting the economy and improving environmental performance
- The Valuation Office Agency should make greater use of data supplied by ratepayers when determining valuations and should be properly funded to improve the Check, Challenge, Appeal process and timelines

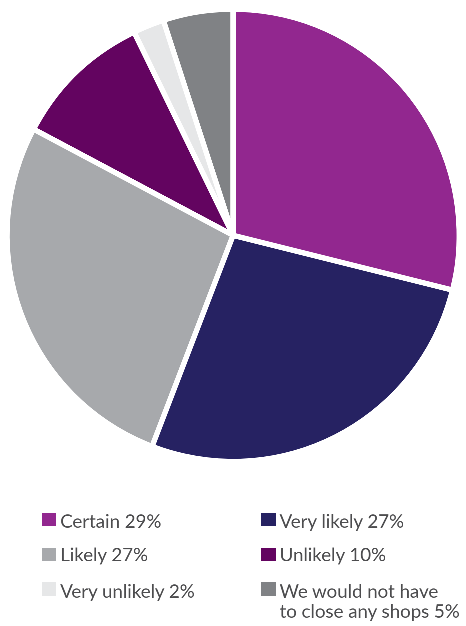
ANNEX – SURVEY RESULTS

83% of retailers surveyed say they are 'likely', 'very likely' or 'certain' to close shops if there is no reduction in the rates burden as a result of the Fundamental Review

If the business rates burden is not reduced, there will be more shop closures and job losses

The government will need a strong economic foundation to build upon if the levelling up and building back better agendas are to be a success and, as we have set out, retail can make a major contribution to this. Crafting a tax and policy landscape which keeps shops open – and encourages business investment – should be a priority for the government to prevent further store closures and job losses will erode retail's input. The loss of more shops would only cause more socioeconomic harm to areas across the country.

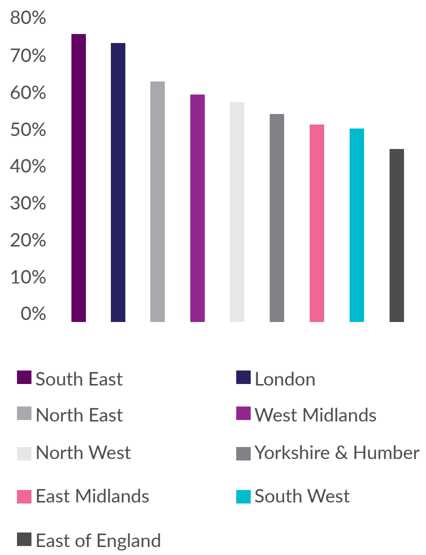
If the Fundamental Review of business rates does not result in a reduction of the rates burden, how likely is it that you will have to close shops?



Shop closures and job losses will be spread across England

It is therefore striking that almost one-third of retailers are certain that that they will have to close shops if the business rates burden is not reduced. All parts of the country would be impacted – not just levelling up regions, but also the South East and London, where the drop in footfall due to the pandemic is making some shops increasingly unviable. While London may not come across as an obvious candidate for levelling up, 'Open for Business' found that 20 of the constituencies in greatest need of levelling up are located in the capital (although it should be noted that the challenges facing London constituencies are not directly comparable to those impacting Northern and Midland seats). At any rate, if shops close, jobs will be lost and retail's ability to drive growth and investment in these constituencies will be eroded.

Primary locations of stores which would be closed if the rates burden is not reduced



London would be most affected by shop closures if rates don't fall, but regions most in need of support in northern England would also be likely to see large numbers of shop closures – and these areas are most in need of levelling up

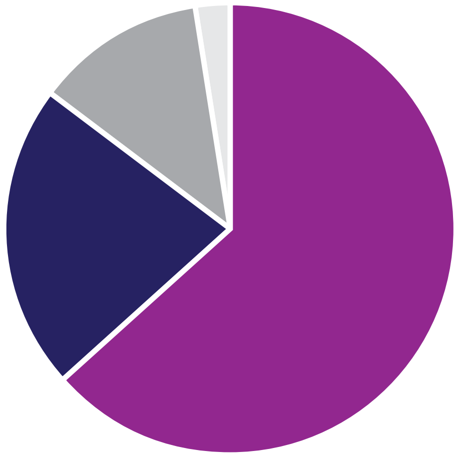
More than three-quarters (85%) of retailers report that business rates are 'very important' or 'extremely important' when deciding whether to open or close a shop

More than two-thirds of retailers which have had to close stores in the last two years report that business rates had a material impact in the decision-making process

Business rates significantly impact the opening and closing of shops across the country

Retailers consider a wide range of factors when deciding whether to open or close a shop. The level of footfall, the condition of the local high street or town centre and the level of business rates are all important when determining a shop's economic viability. Many retailers view the business rates they pay on a property as part of its total occupancy or operational cost. The level of this cost in turn impacts upon the profitability of the store – and if costs outweigh profitability, the store is no longer economically viable and so is likely to close.

How significant an issue is business rates when your business is deciding to open or close a store?

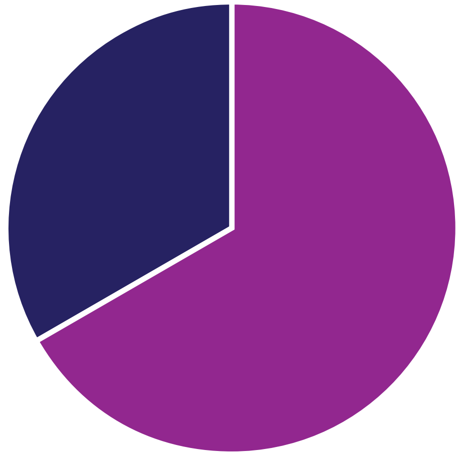


Notably, rates are a bigger factor in closing stores, suggesting the tax has a particularly negative impact on high streets. Property costs (rates and rent) are the single biggest factor in deciding whether to close a store.

Important issues to consider when deciding whether to close a store	Position
Rent	1
Business rates	2
Footfall	3
Lease length/terms	4
Condition of high street	5
Service charge	6
Staff costs	7
Other	8

“Strikingly, two-thirds of retailers which have had to close stores in the last two years report that business rates had a material impact in the decision-making process.

If you have closed any stores in the last two years, did business rates have a material impact in the decision making process?



If the rates burden is not reduced, the tax will continue to have a significant adverse impact on shop closures and the jobs those stores provide. This in turn will have a detrimental impact on high streets and erode retail's contribution to levelling up and building back better. It should also be noted that rates are an important consideration for retailers seeking to open new shops, ranking third overall. A reduction in business rates will open opportunities for retailers of all sizes to invest in new and existing premises.

Business rates continue to rise even as retail rents fall

Despite the fact that retail rents have fallen over the last decade, business rates have continued to rise for many retailers. The business rates tax rate has increased by almost 50% since the system was introduced in 1990.

> Almost six out of ten (59%) retailers experienced an increase in rates liability in the five years to March 2020

By how much did your business rates bill change in the five years to March 2020? (Closest approximation)	% of retailers surveyed
>-25%	12.8%
-25%	0%
0% (no change)	28.2%
+25%	43.6%
+50%	12.8%
+75%	2.6%

> The affected stores are primarily in the north of England, in areas most in need of levelling up

> The average increase in rates liability during this time was 12.8%

Even when rates bills decrease, it can take several years for the full tax reduction to be realised due to a mechanism called 'Transitional Relief'. This relief imposes artificially high rates on some properties in order to stagger artificially lower rates on others. This results in retailers continuing to pay higher rates on properties where the rental value has fallen, often located in levelling up regions, and further distorts the link between the rates system and market reality.

Many retailers are paying more in business rates than rent across their property portfolios

The business rates tax rate ('the multiplier') is just over 51%, meaning that the rates liability for a property should be roughly half of the rent. However, the design of the system means that many pay far more than this in practice. On average, retailers pay more in rates than rents on around a quarter of their properties (24.75%).

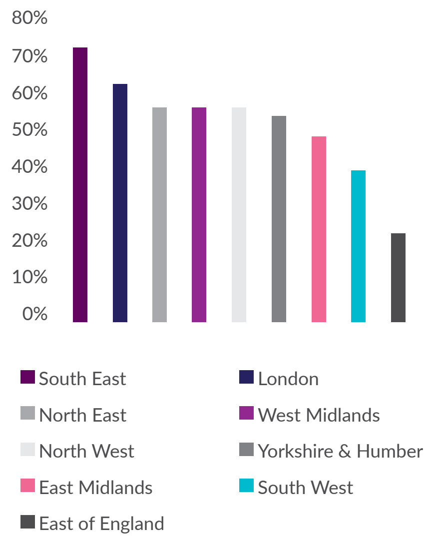
For roughly what proportion of your stores do you pay more in rates than rents?	% of retailers surveyed
<10%	35%
11-20%	20%
21-30%	10%
31-40%	12.5%
41-50%	10%
51-60%	5%
61-70%	2.5%
81-90%	5%

> Around two-thirds (65%) of retailers reported that they are paying more in rates than rent across at least some of their property portfolios

The majority of stores which have higher rates than rents are located in the North West, North East and the West Midlands – regions where the shop vacancy rate is higher. The BRC Vacancy Monitor for Q2 2021 shows the vacancy rates for these regions stand at 18.1%, 20.6% and 17.4% respectively, above the Great Britain average of 14.5%.

> One out of four (24.75%) stores pay more in rates than rent

In which regions are the stores where you pay more in rates then rents primarily located?



The BRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

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