

The Lyons Inquiry into Local Government: A British Retail Consortium (BRC) response

The BRC is the UK's leading retail trade association and exists to defend and enhance where possible, the economic, political and social climate in which our members operate. BRC members sell a wide selection of products through centre of town, out of centre, rural and virtual stores. Reflecting the diversity of modern retailing, they include the large multiples and department stores, charity shops and small and medium sized independent retailers. There are over 188,000 VAT-registered retail businesses in the UK operating in more than 322,000 retail outlets. The retail industry employs nearly three million people and accounts for almost 11% of the total UK workforce. The sector has a vital role in helping to tackle deprivation and related issues such as unemployment, poor skills, low incomes, bad health and high crime. Retailers can give socially excluded groups the chance of living and working environment in which they can thrive, helping to create new markets and regenerate and revitalise towns and cities throughout the UK.

Introduction

The British Retail Consortium (BRC) welcomes the opportunity to comment on this broad and most important review, which will directly impact on our businesses and the people who we employ. Our response, in general terms, considers the workings of local government, and then more specifically looks at funding via arrangements in the rating system and the potential impact of any changes to the current regime.

The BRC is pleased that the terms of reference of the Inquiry have now been extended to go beyond the limited question of local government funding, and the inquiry will now consider the role of local authorities and the relationship between objectives and accountability in local government. We have long maintained that any review of pressures on funding should not be considered in isolation but should take into account the expectations on local authorities, as well as their ability to respond to these pressures. Their ability to provide the services expected by businesses and the public would obviously determine whether certain service provision should rest, or indeed the policies are determined, locally or centrally.

Retail and local government

The efficiency of local government directly affects the operation of our businesses. We need the streets cleaned in front of our premises, we need our refuse safely removed and disposed of, we need our streets adequately maintained and lit and we need our associated service authorities such as the police and fire services to be properly maintained. In developing our

businesses we need an effective planning system to control development and we need adequate transport infrastructure to be planned and maintained.

Our sector is sensitive to its trading environment and is dependent on clean, safe and accessible locations to attract customers. This is why it is common for retailers to contribute to funding for local improvements, over and above what is provided for through the tax system. This is often undertaken in partnership with public bodies allowing our members to play a part in linking funding with desired and bespoke local solutions for improvements, rather than becoming lost in a wider, and unaccountable, system.

Any mechanisms that can be developed to engage the retail sector further by giving them a greater say in the provision of local services would be welcomed by the BRC, including such schemes as the Local Authority Business Growth Incentives (LABGI's) which could play an important role in stimulating inward investment and economic and social regeneration. In short, local government has a real and immediate affect on running our businesses and our sector can have a very positive regenerative affect on the environment in which they operate.

Retail engagement with local authorities

The interim report deals at length with devolution of responsibilities down from central government in order to improve clarity and responsiveness. We would add a cautionary note that the wider the degree of devolution local authorities, the broader the scope for interpreting acceptable service standards. It is important to high street businesses to get assurances that a minimum standard can be expected in the delivery of local services and the ODPM will need to consider that in any further devolution of powers.

We believe that a major issue to be addressed in any review of local government is how the different tiers of local government are arranged and structured. Retailers often experience poor levels of co-operation between different areas of local government, particularly in planning and development. In a simple planning application, we need to rely on good communication between the District Council Planning Department and the County Council Highway Department. Very often, we find that poor communication leads to cases of conflicts of interest between the District and County Councils leaving the applicant to referee. One BRC member has highlighted a case where one County Highways Engineer is single handedly determining the outcome of a planning application involving a Borough Council. This has been ongoing for five years so far and no acceptable outcome has been achieved.

It is worth noting that our member's experiences in dealing with Unitary Authorities find such conflicts do not occur. London is a different case in that the Mayor's Office and Transport for London may also be in conflict with the objectives of some Boroughs.

We believe this highlights the flaw in the argument that local government engagement would improve with the introduction of a localised business rate.

Our members believe that their relationships with local authorities have improved dramatically since 1990 precisely because the friction caused by locally controlled non-domestic rate was removed. Although further measures could be taken to develop this engagement further, large arbitrary tax rises that were not linked to any notable improvement of service delivery significantly damaged business engagement with local authorities prior to centralisation of the rates system.

Any further devolution of power from central government is in danger of being undermined by the fragmented system which currently exists. Greater clarity over who makes decisions about service provision, how much these services cost and whether they can be delivered in a more efficient manner whilst maintaining services standards would ensure retailers presence in communities continues.

The BRC would support a comprehensive review of the tiers of local government in order to streamline local authority operations and improve transparency and accountability in local service delivery. We would concur with argument that true devolution of responsibility, or decentralising power to local government, should cover what services are delivered, what mechanism are used to deliver those services, and the priorities set between them and other activities.

The burden of property costs

There have been considerable increases in the costs associated with property occupied by retailers over recent years. In a climate of reduced consumer spending, increased regulatory burden and falling sales for many businesses, property costs, encompassing rents, rates, service charges and energy costs, continue to rise above inflation. This means that the cost of securing a presence on the high street is becoming increasingly prohibitive for many retailers. Small, independent retailers are particularly affected and are rarely in a strong position when negotiating with a property owner over the terms of a new lease, meaning they are often unable to gain a foothold on the high street because they lack both the covenant strength and the ability to pay ever-increasing rents.

The February BRC/KPMG Retail Sales Monitor indicated a continuation of flat sales growth as the industry's fixed cost base rises well above the rate of inflation, and also faster than the sales line which is having a serious impact on net margins in an industry currently under considerable pressure. This current tough trading environment is set to continue with market conditions being made worse by inhibitors to investment in the high street such as long lease lengths and upwards only rent reviews. This restricts retail tenant's ability to reduce costs to match changing trading conditions. In most market conditions, landlords have the upper hand and lease terms are more likely to reflect the landlord's requirements than meet the business needs of the tenants, and consequently the communities they serve.

Most people regard a thriving, prosperous retail centre as a key ingredient for the success of a community and a catalyst for regeneration. But if these barriers remain and our high streets do not contain a vibrant mix of retailers because they cannot afford to be there, we may lose shoppers from the high street all together. Market conditions are forecast to cause energy and rents to continue to rise and many of the cost increases being demonstrated would be difficult to manage in a positive economic environment, in the current depressed climate, retail businesses large and small are facing extreme financial hardship. Retailers are often unable to pass these costs onto the consumer during in this testing environment and consequently find their profit margins squeezed even further.

Current rates system

Rates are a high yielding tax and the Treasury estimates that for 2004/5 the UK rates revenue will account for about 4.2%¹ of total tax revenue. Set internationally, this percentage is three times higher than any European country and higher than the United States. Rates represent the third highest operational cost for retailers, after wages and rents, and the sector is already funding local government to the tune of £4.5bn² in rate receipts. Allowing the control of business rates to rest with local authorities would, in our opinion, undoubtedly lead to an increase in rates liability as a means of raising revenue. Furthermore locally controlled rates would not be an accountable tax due to the lack of input from business in the local government electoral process, and to date no realistic mechanism has been suggested to engender such accountability between business and local authorities.

The BRC has a clear preference for retaining the status quo and believe the only fair, transparent and workable system of rates is one set nationally. Although the quinquennial revaluations have been a challenge in some sectors where growth in the market value of property has been strong, schemes of transition have helped smooth out most of the adjustments. A centrally set and RPI-capped poundage rate ensures businesses are protected against unaffordable rate increases and this predictability and stability allows businesses to budget for future liabilities. The huge variations in business rates prior to their centralisation (during the mid to late 1980's the rate poundage's varied by 200p) were extremely damaging and proved a major barrier to successful retail operations in many areas.

Locally set property taxes would also distort the property market and act as an inhibitor to investment in the areas of deprivation where business rates are likely to be higher. These areas, that most likely will have a lower business base, would have to levy a proportionately higher rate on business, creating this barrier to the very investment those communities need effecting employment and community prosperity.

¹ In a written ministerial statement 2 December 2004, government confirmed that business tax receipts in 2005-06 arising from the business rates revaluation in England are forecast to increase by 9.6 per cent, from £15,853 million for 2004-05 to £17,368 million for 2005-06.

² This is 26% of the £17,368m to be recovered in rates in 2005/06 (Parliamentary answer 15th March 2005).

The Uniform Business Rate (UBR) has achieved a more equitable system of rate liability and we believe localisation of business rates would damage our sector, the communities retailers operate in and the vitality of the UK economy.

Sales Tax

We would also oppose the introduction of a sales tax set locally. This form of taxation would create huge distortions in local markets, driving consumers seeking lower prices across local authority boundaries. Local authorities are responsible for far too small a geographical area to be able to set a sales tax without distorting the market. A local sales tax would also present a further compliance cost, one which could vary across all local authority areas.

Land Value Tax (LVT)

We note that since government is consulting on a Planning Gains Supplement there is little likelihood of LVT being seriously considered as an alternative to the current system of a property based taxation. However with successive governments trying and failing to produce a workable form of the PGS it may well be re-visited in the future. LVT has a number of advantages. These include not distorting behaviour in the same way as taxes on income and profits do, LVT's potential effectiveness in incentivising the efficient use of land (as all land would incur a charge even when it was not being used for productive activity) and taxing land values could also enable local governments to profit from some of the increase in value as a result of a prosperous local economy. This could provide an incentive for local authorities to more actively play a role in providing the best environment for economic growth and development.

Conclusion

A diverse, vibrant retail heart is the mainstay of most town centres and rural communities across the country. There are few business sectors as important to community life as retailing. Without shops there can be no communities. Whether in our towns and cities, in the countryside or online, retailers make an important contribution to the quality of people's lives. However, in a climate of reduced consumer spending and increased regulatory burden, any possibility of a return to local control of the business rate would result in a lack of stability and predictability in retailer's rate liability and threaten to undermine the contribution the retail sector can make to the delivery of the Government's sustainable communities agenda. In some cases, in particular for smaller traders, a localised business rate could seriously undermine businesses ability to pay their rates bill, as well as plan and manage their budgets.

By helping to create new markets, providing a focus for physical regeneration and implementing socially beneficial operating practices, the retail sector can play an increasingly vital role in the regeneration of towns and cities across

Britain. However further increases in our member's tax liabilities could inhibit investment in areas that would benefit significantly from a retail presence.

Businesses do not only offer considerable support to local services through the tax system (businesses have faced an increased tax liability of £54.2bn since 1997³) but retailers also make regular contributions over and above those made through the taxation to fund local improvements, often in partnership with local authorities. Our members are in favour of the continuing to develop this partnership approach between local government and business and would like to see ways in which this can be further improved, for example through schemes such as BIDs and LABGI's, although only where appropriate. Any re-localisation of business rates is likely to have a negative impact of business engagement at a local government level.

We are pleased that a comprehensive review is being undertaken and if it results in proposals to simplify local government structure, to clarify responsibilities and to provide clear accountability of funding, then we would rate it a success.

³ CBI