

# ACCELERATING PRODUCTIVITY IN A CHANGING WORLD

A SUBMISSION TO THE  
CHANCELLOR

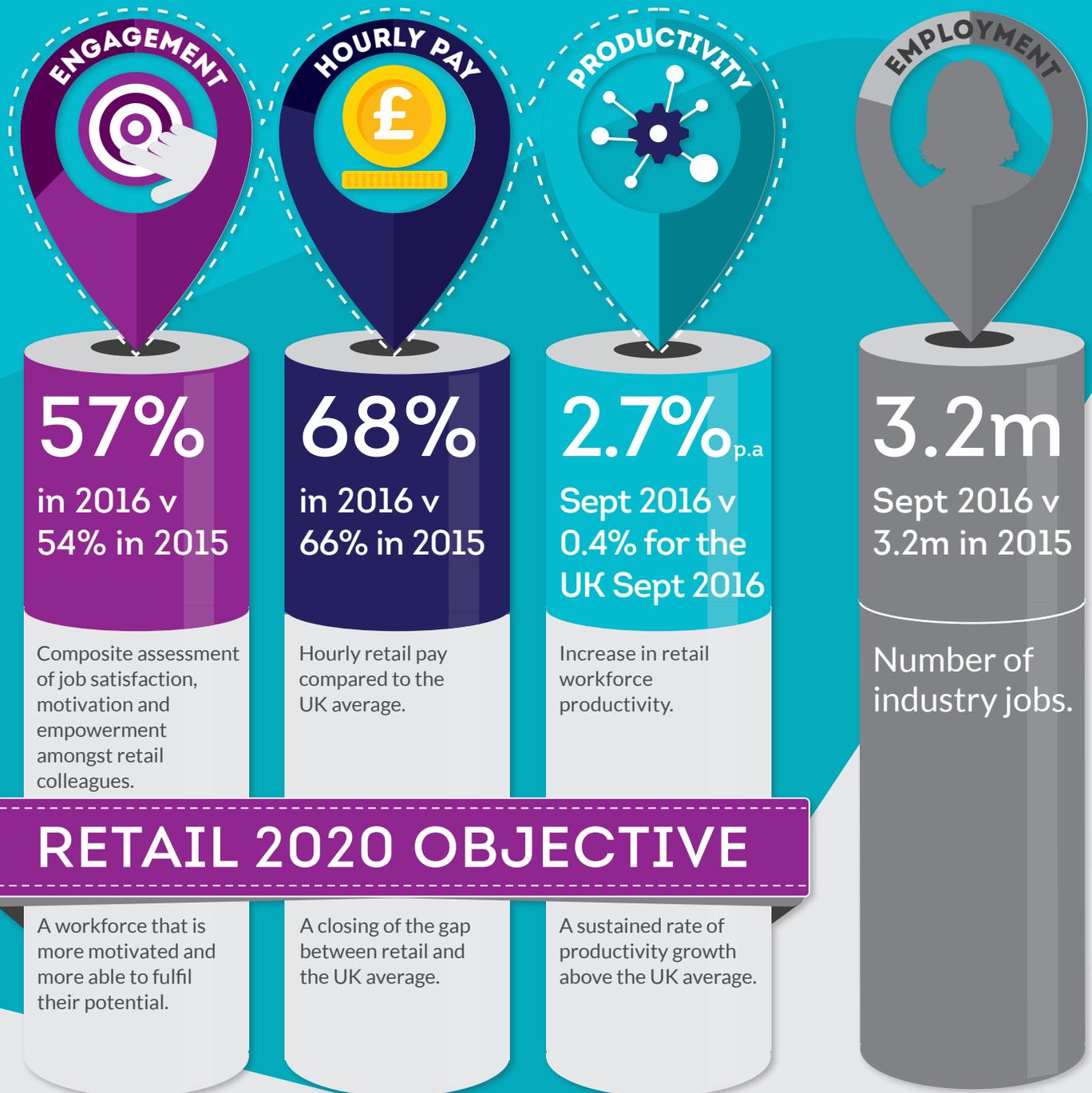
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FEBRUARY 2017



# RETAIL 2020 DASHBOARD

Monitoring how the retail workplace landscape is changing by tracking progress on four key metrics.



# DEAR CHANCELLOR,



Retail and the trade that supports it is woven into the fabric of society but our industry is undergoing a transformation more radical and far-reaching than any that has gone before.

Social, financial and technological pressures are creating a revolution that is inspiring retailers to transform what they do. This has fundamentally altered how we shop, the way business works and the skills that the industry is nurturing for the future. 100,000 people are employed in retail jobs that did not exist five years ago – just one example of the scale of change.

We have a choice between improved productivity driven by better jobs, innovation and new skills for the digital age and a productivity increase driven primarily by a shrinking UK retail workforce. The BRC and our members are committed to understanding how developments in retail business can achieve positive change; we anticipate playing a strong partnership role with Government in the development of an Industrial Strategy to make this change happen.

As our Retail 2020 Dashboard shows, employee productivity in retail is increasing six times faster than the UK as a whole. We expect retail to continue outpacing the UK average as the structure of the industry changes but it will take investment in people and in technology to get there. The retail industry is driving productivity growth through investment in innovation. In 2015, retailers invested £3bn in intellectual property products (including software and research and development) and a further £900m in ICT. This is happening against a challenging

backdrop of shop price deflation, subdued sales growth, fierce competition and declining profitability.

Of course, the UK's exit from the European Union will bring further change. We believe there are reasons to be optimistic about trade and retail in a post-Brexit world and that a fair deal for consumers and an orderly deal for business is possible. It is encouraging that the Government recognises the UK has a role to play as a champion of free and open trade. Making these stated ambitions a reality will require close partnership between the retail industry and UK-EU negotiators.

In the meantime, retailers want to continue their contribution locally and ensure they play their role in underpinning vibrant communities. Continued reform of business rates will help retailers stay anchored in towns and cities, providing jobs and stability for local people.

We are committed to ensuring that the retail industry is able to maximise its future contribution to the UK's success. Your forthcoming Budget and Industrial Strategy are an opportunity to work with our industry to shape the implications of the industry's transformation for the benefit of our customers, the workforce and the Government's productivity agenda.

A handwritten signature in black ink, which appears to read 'Helen Dickinson'. The signature is fluid and cursive.

**Helen Dickinson OBE**  
Chief Executive  
BRC

# SUMMARY OF RECOMMENDATIONS

## 1 WORK WITH US IN PARTNERSHIP TO DELIVER A RETAIL INDUSTRIAL STRATEGY THAT INVESTS FOR PRODUCTIVE GROWTH

- Encourage and develop a partnership role for the retail industry to play in contributing to a strong British economy in the future.
- Recognise and acknowledge the strong contribution that retail can make to the Brexit negotiations.
- Work in partnership with the retail industry to explore the scope for a sector deal.

## 2 DELIVERING ON BETTER PAY, PROGRESSION AND PRODUCTIVITY

### PAY

- Strengthen the role of the Low Pay Commission to ensure that it is able to make fully independent recommendations on the rate of increases in the National Living Wage and National Minimum Wage.
- Continue to take a moderate approach on increasing the National Living Wage or National Minimum Wage, taking full account of current and future conditions.
- Maintain a dynamic target for the former based on a proportion of average earnings rather than a flat cash rate.
- Track progress on levels of pay, productivity, employee engagement, and job numbers through our Retail 2020 Dashboard by working with us.

### TRAINING

- Ensure a well-integrated approach to the introduction of the Apprenticeship Levy in the devolved nations, ensuring maximum compatibility of use with the original scheme.
- Refine the processes for identifying and developing new Apprenticeship standards to ensure that emerging skills requirements can be rapidly addressed and invest in IT and digital skills training across the retail industry.
- Maintain strong support for users as the new digital accounts are rolled out, to ensure that any technical issues are rapidly resolved.

### 3 A FAIR BREXIT FOR CONSUMERS AND AN ORDERLY BREXIT FOR BUSINESS

- Ensure no new customs duties upon trade with the EU.
- Adopt MFN rates that are broadly the same as those it applies as part of the EU, once the UK leaves the EU.
- Start early on recreating the benefits of EU preference schemes such as the GSP.
- Clarify the scope of the Great Repeal exercise as soon as possible.
- Avoid substantive changes to regulation covered by the Great Repeal Act until Brexit has been successfully concluded.
- Pursue interim/bridging arrangements with the EU for those areas where a fully negotiated settlement with the EU is unlikely within the Article 50 timeframe.

### 4 A LONG-TERM, SUSTAINABLE BUSINESS RATES SYSTEM

- Switch to CPI indexation in April 2017 to prevent loss of investment followed by a flat rate so that rates rise and fall in relation to property values aided by more frequent revaluations.
- Implement more frequent revaluations ensuring independent valuations accurately valuing properties take place every three years.
- Ensure a fair appeals system taking account of a property's Rateable Value (RV), therefore, removing the proposed 'outside the bounds of reasonable professional judgement' clause.



# WORK WITH US IN PARTNERSHIP TO DELIVER A RETAIL INDUSTRIAL STRATEGY THAT INVESTS FOR PRODUCTIVE GROWTH

We very much welcome the Government's collaborative approach to industrial strategy and are working with our members on our contribution to the questions in the Green Paper, which strongly chime with the way that the retail industry is looking at the future.

The key to driving growth will be a substantial increase in productivity and as we demonstrate in the Retail 2020 Dashboard, our industry is making headway on understanding what to change and how to make that happen. The opportunities presented by the development of technology have already transformed thousands of roles and tasks in retail and we expect this change to accelerate. As our industry co-operates to share data and developments, we will be able to provide Government with valuable information about what transforms productivity.

The Government has made a clear priority of development and bespoke solutions at local level. Our industry is well-placed to contribute to local communities because this is the essence of retail: there are shops in every locality; online retail delivers to every part of the country and new developments in collection are retail's latest contribution to local business.

Our industry employs more young people than any other at the same time as we are embracing new technologies; we bring large numbers of young people into the workforce and provide them with the skills to develop great careers.

Our industry contributes £93bn to the economy annually and employs three million people. These are the people we believe the Prime Minister refers to in the goal of delivering for everyone. We believe there will be public recognition of and support for the Government's approach and the industrial strategy if a greater proportion of the population can see themselves and their contribution through retail in it.

## RECOMMENDATIONS

- Encourage and develop a partnership role for the retail industry to play in contributing to a strong British economy in the future.
- Recognise and acknowledge the strong contribution that retail can make to the Brexit negotiations.
- Work in partnership with the retail industry to explore the scope for a sector deal.



# DELIVERY ON PAY, PROGRESSION AND PRODUCTIVITY

Retail is the UK's leading private sector employer, providing opportunities for more than three million people from diverse backgrounds in a very wide range of roles. More young people start their life working in retail than any other industry and irrespective of age, the industry makes significant investments to ensure employees develop their skills and maximise their contribution to our companies and their future careers. The geographical diversity of retail is far-reaching, providing employment in cities, towns and villages across the UK.

Structural change in the industry has significant implications for its workforce. The technological revolution is fundamentally altering the way retail businesses operate and the skills needed for future success. Recent government initiatives on pay and apprenticeships have had an important influence on this process of transformation.

We support the National Living Wage and the industry is working hard to prepare for the Apprenticeship Levy. We particularly welcome the Government endorsement of the Low Pay Commission's measured increases in the National Living Wage and the National Minimum Wage in the 2016 Autumn Statement. Clarity and certainty are key considerations as the Government charts its future approach in these areas and that we work in partnership together to ensure that these new mechanisms deliver for employees and the wider industry.

## RECOMMENDATIONS

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- Maintain strong support for users as the new digital accounts are rolled out, to ensure that any technical issues are rapidly resolved.



# A FAIR BREXIT FOR CONSUMERS AND AN ORDERLY BREXIT FOR BUSINESS

There are reasons to be optimistic about trade and retail in a post-Brexit world. It is encouraging that the Government recognises that the UK has a role to play as a champion of free and open trade.

In leaving the EU, the retail industry's overriding objective is to ensure that it can keep prices low for consumers. This is best achieved by avoiding new regulatory costs and in particular, new customs tariffs. Retail is a complex industry subject to a range of regulation, much of which currently comes from Brussels. In order for the industry to invest and innovate, it needs clarity on the regulation it will be subject to after leaving the EU and a smooth path to that new regulatory environment.

Workers from the EU are part of the reason that British retailers are often able to deliver affordable and high-quality goods. The Government's intention to secure the right of these workers to remain here is welcome. There are up to 200,000 EU nationals employed in the industry and they make up an integral component of the retail workforce.

## KEEPING PRICES LOW FOR CONSUMERS

Much of the discussion about the UK's future trading relationship with the rest of the EU has focused on British exports. However, the UK imports far more from the EU than it exports to it. In 2015, we calculate that if these products had been subject to customs duties, it would represent an average increase in cost of sourcing from the EU of 20 per cent, which would have represented a total extra customs bill of £3 billion.

We welcome the Government's ambition for the UK as an open, competitive and vibrant global trading nation, where goods can be traded with the minimum of red tape and tariffs. This ambition will take time to realise and in the meantime, it is important that the hard-won benefits of trading in the single market are not lost. The UK can take the opportunity from outside of the EU to be a vigorous and vocal proponent of the rules-based global trading system and should ensure that it promotes these values in any bilateral negotiations it opens.

### RECOMMENDATIONS

- Ensure no new customs duties upon trade with the EU.
- Adopt MFN rates that are broadly the same as those it applies as part of the EU once the UK leaves the EU.
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## KEEPING PRICES LOW FOR CONSUMERS

The regulatory environment will change as we leave the EU. In its proposals for a Great Repeal Bill, the Government has offered helpful clarity by announcing a mass migration of regulation from EU competence to domestic competence. This transfer of powers from Brussels to the UK promises to be a difficult and resource-intensive exercise and it will be a challenge to achieve it in an orderly and timely fashion in the time frame envisaged in Article 50. To facilitate this transition, clarity is needed about the scope of the Great Repeal exercise. Business can contribute by being disciplined in its engagement with the process.

In areas like trade, we think it will be very difficult to conclude a durable agreement with the EU in the time allowed under Article 50. There will also be a need for a transitional arrangement to smooth the path from the existing arrangements to a new regime.

### RECOMMENDATIONS

- Clarify the scope of the Great Repeal exercise as soon as possible.
- Avoid substantive changes to regulation covered by the Great Repeal Act until Brexit has been successfully concluded.
- Pursue interim/bridging arrangements with the EU for those areas where a fully negotiated settlement with the EU is unlikely within the Article 50 time frame.



## A LONG-TERM, SUSTAINABLE BUSINESS RATES SYSTEM

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Structural change means that retailers constantly review how best to serve their customers. A key area of consideration is store portfolios. Companies look closely at their leases and will be considering fixed costs, including business rates, to review profitability of individual stores and decide if they can afford to keep them open. As part of the Government's goal to maintain a competitive tax environment for business, further measures to reform business rates are needed to fix an unsustainable system that continues to discourage investment in jobs and growth.

Despite last year's review, retailers will pay an additional £2 billion over the next three years, compared to the last three years. To help with investment plans, the Government can:

- Work with us to revise the business tax road map in light of the EU referendum.
- Switch to CPI indexation in April 2017 to prevent loss of investment followed by a flat rate so that rates rise and fall in relation to property values aided by more frequent revaluations.
- Ensure a fair appeals system taking account of a property's Rateable Value (RV), therefore, removing the proposed 'outside the bounds of reasonable professional judgement' clause.
- Implement more frequent revaluations ensuring independent valuations. accurately valuing properties take place every three years



# A LONG-TERM, SUSTAINABLE BUSINESS RATES SYSTEM

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## BUSINESS TAX ROAD MAP

In the road map published before the EU referendum, the Government committed to reform some aspects of business rates, which is welcome. However, further action is needed for businesses to effectively plan and invest.

UK commercial property taxation remains the highest in Europe and across OECD countries. An important component of an updated road map should be a timetable to gradually reduce the disproportionate burden of business rates and fully meet the previous Government's stated ambition to radically reform the tax.

## CPI INDEXATION IN APRIL 2017, FLAT RATE BEGINNING 2020

CPI indexation is needed in 2017 to prevent loss of investment. We believe that in 2020, there should be a flat rate linked to RV that already accounts for inflation and other economic conditions. Rates would then rise and fall in relation to property values based on more frequent revaluations.

Property is no longer an indicator of profit; therefore, during challenging times, the Government must support rather than hinder high streets and their retailers.

## FAIR APPEALS SYSTEM

Given the growing burden of business rates, it is essential that each ratepayer pays its fair share. However, the new plans would allow the Valuation Tribunal for England to only order a change in valuation if it is 'outside the bounds of reasonable professional judgement'. This would create additional uncertainty for local government.

Instead, a collaborative working relationship between the VOA and ratepayers, where information and evidence can be shared and appeals avoided, should be sought.

## MORE FREQUENT REVALUATIONS

Three-yearly revaluations will reduce the number of unneeded appeals and be fairer and more closely aligned to economic circumstances. Rather than waiting another five years following the 2017 revaluation to assess properties, the industry is committed to working with Government to enable more frequent revaluations every three years which we suggest should commence from 2020.

We believe that self-assessments or formula-based valuations are not fair, simple to administer or flexible enough to respond to economic conditions. Instead, the method in which the VOA operates should be strengthened through better use of technology and early engagement and exchange of information with ratepayers.

# A SNAPSHOT



3.2<sup>M</sup>

JOBS



9%

OF UK EMPLOYMENT



£ 340<sup>BN</sup>

RETAIL SALES 2016



£ 93<sup>BN</sup>

IN GROSS VALUE ADDED



£ 200<sup>BN</sup>

GOODS FOR RESALE



SUPPORTS

£ 55<sup>BN</sup>

WORTH OF SERVICES FROM OTHER SECTORS



350<sup>M</sup>

TRANSACTIONS PER WEEK

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## THE BRITISH RETAIL CONSORTIUM

Retail in an exciting, diverse and dynamic industry undergoing transformational change. The BRC is at the forefront – enhancing, assisting, informing, and shaping. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture.

The BRC leads the industry and works with our members to tell the story of retail, shape debates and influence issues and opportunities which will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry's success – our 3 Cs.

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