Budget September 2021

Submission from the British Retail Consortium (BRC)

About the BRC

The BRC is the trade association for UK retailers, representing around 70% of the UK retail industry by turnover. BRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

The UK Retail Industry

- Retail is a dynamic and diverse industry with 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.

  Over three million people work in retail – 8.6% of employment nationally. According to a recent report by WPI Strategy (*Open for Business: The role of retail in levelling up across the UK)*, "retail is the backbone of the local economy in constituencies most in need of levelling up and provides a disproportionately high number of jobs in the North, South West, Midlands, and Wales…In constituencies in need of levelling up…retail jobs can make up over 17 per cent of employment." So, the potential for retail, through its scale, to contribute to the government's goals of driving economic growth and levelling up the whole of the UK, is huge. This potential is bolstered by the industry's vision for 'Better Jobs': while job numbers may fall because of transformation, retail jobs are becoming more digital, more customer focused, higher skilled, more productive, and better paid. Between 2008 and 2020, retail pay rose by 44%, compared to the UK average of 30%, and between Q1 2016 and Q4 2019, retail saw an increase in productivity of 11.4%, while productivity in the UK economy improved by 1%. Furthermore, the industry has shown itself to be at the forefront of digital innovation globally.

- Retail touches people's lives in a way few other industries can. It is an integral part of communities the length and breadth of the country. Retailers provide vital services and are on the front line helping implement government policies, and effect positive change through responsible business practices.

  Changing consumer behaviour has brought about a channel shift in retail and an oversupply of retail space. According to the Centre for Retail Research, there have been more than 46,000 store closures since 2018, which is leading to challenges for high streets in many parts of the country. With the right reforms, retail will continue to be at the heart of vibrant communities and high streets across the country.

  People need a reason to visit high streets. That means the right balance between retail, residential, leisure and hospitality, together creating a compelling offer and places where people want to meet, shop, and socialise. It means high streets must be accessible, with an adequate supply of affordable parking and good public transport infrastructure.

  High streets also need to be attractive to businesses. The business rates system needs to be

reformed to bring rates bills closer to market values and to incentivise investment in new stores. Action is also required to modernise commercial leases so that they are more responsive to economic conditions and support a more constructive relationship between occupiers and landlords, while planning reform is needed to repurpose retail property and revive high streets and communities.

- In June 2019, the UK became the first major country to legislate for a net-zero target for carbon emissions by 2050 in recognition of the grave threat posed to the planet by climate change. The retail industry can play an influential role in delivering this goal through its position as a gateway between supply chains and the goods that customers buy and consume.

  BRC published a Climate Action Roadmap for retail in November 2019, which will see the industry and supply chain reach net zero carbon emissions a decade ahead of the UN's targets. It will see retail sites powered by renewables, low carbon logistics, sustainable sourcing and help customers live low carbon lifestyles, supporting the delivery of one of the government's key manifesto commitments a full ten years ahead of schedule.

- Retail has been transforming because of new technology and changing shopping habits. More of us are now shopping online, with online sales growing by more than a third in 2020. 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.

  Covid-19 has accelerated this transformation, and as the industry begins to recover from the impact of the pandemic, with the right support from government, it can make a significant contribution to government's ambitious plan to 'build back better', driving economic growth and levelling up the whole of the UK, and to the government's net zero targets.

Covid-19 and retail recovery

- The pandemic has had a significant impact on retail and the extensive financial support from the UK and devolved governments helped to ensure the short-term survival of many retail businesses. 'Non-essential' retailers were forced to close stores on three separate occasions after March 2020 and lost at least £22bn in store sales as a result.

  The pandemic response showed the industry at its best. In March 2020, as demand for groceries skyrocketed almost overnight, the industry kept shelves stocked and ensured the public was able to get the food and other goods they needed. Retailers prioritised vulnerable customers and were able to continue serving them, introducing new systems to ensure that they had access to delivery slots.

  More widely, the industry invested hundreds of millions of pounds to make stores safe for staff and customers, and to boost online delivery capacity.

- Retail sales have recovered well in recent months, as lockdown restrictions eased and pent-up consumer demand was able to be released, at +5.9% on a year-on-two-year basis.

Significant distortions caused by the pandemic continue to be seen in retail sales data, as retailers try to establish which effects are permanent and which are temporary. Food saw strong demand in the twelve months to August 2021 as heavy restrictions on the hospitality sector removed a great deal of choice for consumers. Non-Food saw a resurgence in demand over the same period, following the struggles seen in the previous year. This was primarily driven by strong demand for homewares, as many people remained at home far more than they normally would, including for home working and schooling. Also, because of travel restrictions, there was more consumer spending directed towards home improvements. This trend has changed somewhat since the country emerged from the latest lockdown in Q1, as people have moved towards spending on fashion goods once again. Clothing & footwear had suffered significantly up until that point, with formalwear the worst affected by far, as people have yet to transition back to office-based working and there remain fewer formal social occasions than before the crisis.

The recovery remains fragile, and the industry continues to face headwinds. Footfall is still down on pre-pandemic levels in many locations, and there are multiple issues creating significant additional cost pressures which could hamper retail's recovery and its ability to maximise its contribution to the recovery of the wider economy. These include higher utility costs, Brexit red-tape, Covid related supply chain disruption, raw commodity shortages and increased shipping and petrol costs. The industry is also struggling with labour shortages, HGV drivers in particular, which are increasing staff costs significantly. The recent increase in employers' National Insurance contributions will also disproportionately impact the retail industry. Faced with these upward cost pressures, retailers will have little choice but to increase prices, particularly when the cumulative impact of policies across Whitehall is taken into consideration. Furthermore, increases in National Insurance contributions will take money out of household disposable incomes and thus dampen demand.

Retail is diverse and touches almost all Whitehall departments yet there is little coordination between departments or consideration of the cumulative impact on the industry. Examples include business rates, where the multiplier has increased by almost 50% since the system was introduced in 1990, increases to National Minimum Wage rates, the Apprenticeship Levy and significant potential future costs from a Deposit Return Scheme and Plastic Packaging Tax. Retail has a strong track record of responding to public policy initiatives and playing its part, but this cost burden is hindering the industry's ability to invest. The industry needs to see this cost burden come down overall and – as a contributor of 10% of all business taxes while only 5% of the economy – opposes any new taxes which would add to the burden.

Policy recommendations

Since March 2020 we have seen a dramatic acceleration of the transformation that was taking place within retail. As the industry begins to recover from the impact of the pandemic, with the right support from government, it can make a significant contribution to government's ambitious plan to 'build back better', driving economic growth and levelling up the whole of the UK.

Our detailed policy recommendations are set out below.

1. Rent and Rates

Business Rates: The retail industry was pleased that the Government maintained its commitment to the Fundamental Review of Business Rates last year despite the challenges brought on by the pandemic. The rates burden falls disproportionately on retail – the industry accounts for 5% of the UK economy but pays 10% of all business taxes and 25% of all business rates. That is why we particularly welcomed the commitment in the Review's Terms of Reference to reduce the burden of rates on business.

The initial output of the Fundamental Review has been positive – more frequent revaluations and the principle of sharing more property data with the Government in exchange for more accurate valuations and faster resolution of appeals is welcome, but this must avoid the burdensome administration associated with the introduction of 'Check, Challenge, Appeal' in 2017.

These measures however, whilst positive, do not in themselves represent fundamental change. It is vital that the burden of rates is addressed. Reliefs in 2020 and 2021 to mitigate the impact of Covid were hugely welcome and necessary. However, the current risk is that retailers will return to 100% business rates liability in April based on 2015 valuations. This is unsustainable for many retailers, given that footfall has not yet returned to pre-pandemic levels and that rents have fallen by as much as 30% across most of England since 2015. This means that retailers' property costs are significantly out of kilter with market conditions, making many stores unviable. Indeed, the BRC's survey of retailers showed that, without a reduction in rates next year, 83% of retailers said it was 'very likely' or 'certain' they would have to close stores unless the rates burden was reduced. This would have profound impacts on employment and community sustainability in every part of England. While we expect rates bills to fall somewhat in 2023 with the advent of a new list, it is important that 2022/23 does not see a spike in rates that jeopardises the industry's still-fragile recovery, so we believe that a bridging relief is needed next year to address this.

In addition to this bridging relief, it is important that the outcome of the fundamental review sees a substantial reduction in the longer-term cost burden of rates on the retail industry; incentives to undertake property improvements – particularly ones that move properties towards net zero; the ending of downwards phasing of transitional relief; and sufficient funding of the VOA to undertake both more frequent revaluations and process appeals. Underpinning this must be the removal of the historic and anachronistic requirement for rates to always raise a fixed sum, allowing for inflation and appeals.

Recommendations:

- **The rates review must result in a long-term substantial reduction in the tax burden on retailers and the ending of downwards phasing of transitional relief.**
- **The requirement for rates to raise a fixed sum must be removed and the tax allowed to flex in line with economic circumstances as all other taxes do.**
- **HMT should introduce a one-year 'bridging relief' of at least 30% for retail for Financial Year 22/23 to account for the reduction in retail rents since 2015.**

Debt enforcement moratorium: The Government acted swiftly and effectively at the outset of the pandemic to protect commercial tenants from arrears debt enforcement by landlords, and the BRC worked with officials and Ministers to subsequently develop the Code of Practice for Commercial Property Relationships. These measures undoubtedly secured the continued operation of many otherwise viable retailers, protecting tens of thousands of jobs, and safeguarding future tax revenue for the Exchequer.

The BRC supported the various extensions to the debt enforcement moratoria and was pleased to

see many of our proposals for resolving the issue of rent arrears adopted by Government in their recent announcement. The overwhelming majority of retailers with arrears simply desire time to trade their way out of debt and reach new rental arrangements with their landlords, and do not seek to evade their legal obligations; we believe that the policy proposed will help achieve that.

We continue to have positive and productive discussions with officials on the detail of this proposal. There are three issues that need to be resolved to ensure its effectiveness in protecting jobs and businesses. Firstly, it is vital that County Court Judgements are brought within the scope of the debt enforcement ban. This mechanism is being exploited by some landlords to evade the spirit and the letter of the policies put in place by Ministers. This particularly needs resolving because, in addition to the outstanding arrears, landlords' legal costs are usually indemnified, meaning that tenants are also liable to pay their costs, as well as their own legal costs, to settle the case. There is some suspicion that these costs are inflated as a result, making the debt even harder to pay off and pushing businesses closer to administration. This loophole needs to be closed.

Secondly, while we support the Government's position that those who can pay rent in full should do so, it is important that this is understood in the context of all the other obligations of a tenant. Outstanding loans, supplier costs, other rent arrears and any other call on tenants' balance sheets, must be factored into whether a tenant genuinely can afford to pay in full the rent demanded.

Finally, the scope for those arrears that can qualify for the arbitration process must be drawn in such a way as to support the widest range of businesses affected. The timescale for arrears should be from March 2020 to when sectors were able to open for the last time – 12 April 2021, in retail's case. This would be the simplest approach for the timing of arrears in scope; with the variety of national and local lockdowns that occurred in this period, and the fact that rent payment periods do not coincide with these lockdowns, any more granular approach risks the viability of the arbitration process as a whole. In addition, the test for eligibility to use the process should take into account the impact of national and local restrictions on a business, even if it were not legally required to close. A pharmacy in a train station, for example, may have closed during a national lockdown as it was not viable where passenger numbers had fallen by 95%, and should therefore not be unreasonably excluded from the arbitration process simply because it was not required to close by law.

Recommendations:

- **County Court Judgements must be brought into scope of the debt enforcement moratorium.**
- **The scope for the compulsory arbitration process must be drawn as widely as possible in terms of both the eligible periods and the eligible businesses to ensure the maximum benefit to the economy.**

2. Learning and Skills

Over three million people work in retail – 8.6% of employment nationally and while job numbers may fall because of the transformation of the industry, retail jobs are becoming more digital, more customer focused, more highly skilled, more productive, and better paid. Between 2008 and 2020, average retail pay has risen by 44% (from £6.71/ hour in 2008 to £9.68 in 2020) compared to an increase of 30% in the UK average (from £10.54 to £13.65). Between 2016 – when the Government introduced a new top rate of the minimum wage rate for the over 25's, and 2020, wages rose in retail by 18% compared to 13% in the UK.

Retailers' ability to upskill and retrain their people is critical to delivering our 'Better Jobs' vision.

Reform of the Apprenticeship Levy system is key to support colleagues' upskilling and lifelong learning for retail careers of the future. Failure to make necessary reforms would be a missed opportunity to support higher skilled, better paid jobs in the economy and reduce regional inequality.

Greater flexibility in how Apprenticeship Levy funds can be spent is vital if retailers are to access the money to effectively upskill their workforce and create higher-skilled, better-paid jobs in the industry. The Government needs to deliver on its commitment to reform the Levy with a comprehensive consultation on how apprenticeships are accessed and delivered. The Levy should also be opened up for employers to access funds to upskill their staff with shorter, high-quality courses and qualifications as current apprenticeship offerings frequently do not address these requirements.

Retail has some of the greatest examples of delivering real social mobility and lifting people out of poverty and the industry supports the belief in the levelling up power of being able to access lifelong learning and development.

Recommendations:

- **The Apprenticeship Levy should transition to a wider Skills Levy allowing access to a defined list of shorter, high-quality courses and qualifications such as functional and digital skills programmes, in addition to existing apprentice programmes.**
- **Levy funds should be used to provide placements on pre-apprenticeship programmes to address the work preparedness of young people.**
- **Unspent Levy funds should be utilised to allow employers to use these funds to cover a set percentage of employers' costs associated with taking on an apprentice**
- **The 24-month expiry date for levy funds to be used should be extended to four years to allow retailers to fund apprenticeships during the recovery from the pandemic**

3. Driver Shortages

Latest estimates show that there is a current shortfall of around 90,000 HGV drivers which is placing increasingly unsustainable pressure on retailers and their supply chains. The combined impact of the Covid-19 pandemic, which halted driver training and testing for over 12 months, and the recent return of significant numbers of EU drivers to their country of origin has exacerbated pre-existing shortages.

The impacts on retail supply chains are now starting to be felt and we are concerned that the situation is already deteriorating. Both the retail and logistics industries are working hard to address the driver shortage challenge by increasing pay rates, offering bonuses, and implementing internal training schemes to upskill existing workers and introducing new schemes including apprenticeships and traineeships.

We welcome the engagement we have had with the Government on this issue; the publication of the Government's plans to increase HGV driver testing capacity and simplify the process of attaining a licence should encourage more people to consider a career as an HGV driver. However, it will take time for the pool of available HGV drivers to reach a scale which matches demand. Even if the DVSA is successful in increasing testing capacity to 2,000 passes each week, the backlog of tests is unlikely to clear before the middle of 2022.

We also welcomed the government's decision to introduce a temporary visa scheme to allow HGV drivers from abroad to help temporarily fill domestic shortages in food and fuel logistics. However, we are concerned that the limit of 5,000 visas will do little to alleviate the current shortfall. Supermarkets alone have estimated they need at least 15,000 HGV drivers for their businesses to be able to operate at full capacity ahead of Christmas and avoid disruption or availability issues.

In addition, there are several events in the latter part of the year which are adding further pressure to supply chains. These include the anticipated return to workplaces for many businesses in September and the build-up to Christmas, which is the busiest time of year for many retailers and for the logistics sector when volume requirements increase significantly.

The impact of the driver shortage is already being felt, with many businesses struggling to get goods into distribution centres and depots and - in some cases - into shops, with ramifications for consumer choice. There are severe inflationary pressures in the supply chain due to lack of drivers, pressure which neither the logistics industry nor the retail industry can afford.

Recommendations

- **Expand the size and scope of the temporary visa scheme to include at least 15,000 visas for food alone, and to cover non-food products so that there are not shortages at Christmas, and people are able to access the full range of products they want and need.**
- **Ensure that Government skills and training schemes support the recruitment of HGV drivers: By reforming the National Skills Fund to enable HGV driver training to be funded and enhancing Apprenticeship Levy flexibility, including by enabling "front-loading" of training to get trainees driving as soon as possible into the 12-month programme.**
- **Permanently increase testing capacity: To avoid the backlog of testing continuing into 2022, we need additional staff at the DVSA and more use of delegated testing to permanently increase the number of drivers who are able to take HGV tests each day.**

4. Deposit Return Scheme

The retail industry is leading the fight against climate change, and we share the Government's objectives of increasing recycling rates and tackling packaging litter through an efficient Deposit Return Scheme in the UK. The BRC remains supportive of the proposal to introduce a Deposit Return Scheme in England, Wales and Northern Ireland, and Scotland despite the fact that many retailers have been and are still dealing with unparalleled uncertainty and challenges caused by the pandemic.

However, we wish to underline our concerns about Value Added Tax (VAT) potentially being applied to DRS deposits for drink containers in the UK. Applying VAT on DRS deposits could lead to increased prices for consumers as well as significant cash-flow challenges for retailers, wholesalers and producers. More importantly, it would risk undermining the success and workability of deposit return schemes across the UK and brings no environmental benefit.

The suggestion of a 'VAT neutral' solution is unlikely to be neutral and will create indirect costs across the thousands of businesses involved across the supply chain in addition to the financial loss that producers and brand owners face on unrecoverable VAT on unreturned deposits which alone could amount to over £400m in the first three years of a UK wide scheme. The deposit schemes are not designed to benefit anyone financially, rather, they are being implemented to aid the rapid improvement of recycling rates.

Recommendation

- **We recommend the Government grant an outright specific exemption from VAT for DRS deposit amounts, given these are fully returnable and not part of the product. This would prevent likely product price rises, remove unnecessary levels of administrative complexity from the scheme, and allow resources to be better put towards high performance landmark environmental schemes that will radically improve recycling rates and reduce litter across the UK.**

5. Plastic Packaging Tax

The retail industry shares the Government's aims – and is already making good progress – to reduce plastic pollution and to create a circular economy but is concerned about unintended consequences of otherwise well-intentioned policies.

The forthcoming Plastic Packaging tax has created a disruptive effect with many organisations already raising concerns over business readiness for April 2022 and looking to secure sufficient supply of recycled plastic content ahead of the tax or anticipating paying the tax in the first year. With just under seven months to go until the introduction of the tax, many retailers are still waiting for clear and simple guidance on the tax's implementation and associated reporting.

In terms of the invoicing requirements, the volume of information proposed by HMRC for inclusion on invoices will be challenging for businesses to include on an invoice by invoice basis and introducing new updates to invoicing systems to accommodate the roll out of the tax will be challenging under such tight timeframes.

We support the objectives to increase the demand for recycled content tax, but any tax should ensure additional funds raised are earmarked for recycling system improvements. Whilst the tax aims to provide a clear economic incentive for businesses to use recycled plastic in the manufacture of plastic packaging, by creating greater demand for this material, the tax alone will not ensure that the investment required to sort and recycle material will be created in the UK nor in a timely manner. To be able to overcome the issues relating to supply it will require the UK to become a far more self-sufficient nation in reprocessing plastic waste. Substantial investments will be required in both mechanical and chemical recycling, paired to the introduction of consistent collections of flexible plastics as early as possible across the UK.

Furthermore, we are not convinced that HMRC's approach regarding assuring the accuracy of declared recycled content and fraud prevention is appropriate. Internationally, particularly in Europe and the USA, audit and certification systems are now becoming established. We agree with the wider industry's position that it will be necessary to ensure that robust systems and auditable raw material trails are in place in the UK to mitigate against fraud. Minimum requirements will be needed in line with current certification and audit systems using relevant standards such as those for testing and traceability. Without proper checks in place how can retailers confidently know what they use or buy has recycled content. This is even more valid in the light of the 'misleading green claims' work that the CMA and Defra have undertaken, we would have appreciated to see more alignment between Government departments.

Finally, we wish to reiterate that in some cases, it may not be legal under food safety regulations for large amounts of packaging to have recycled content and the inclusion of this within the scope of the tax is therefore counterproductive.

Recommendations

- **Ensure money raised funds the improvements needed in domestic recycling and reprocessing capacity and that regulations do not penalise those who are legally prevented from using recycled content.**
- **Publish technical guidance as soon as possible on the implementation of the Plastic Packaging Tax and associated reporting.**
- **Simplify any invoicing system change requirements as far as possible to alleviate the pressures retailers are currently facing due to the pandemic and Brexit.**
- **Adopt a more coherent approach across its Departments and Agencies regarding the assurance of accuracy and traceability of declared recycled content and fraud prevention.**

6. Net zero logistics

BRC has launched a Climate Action Roadmap which will see the industry and supply chain reach net zero carbon emissions by 2040. Road logistics have been identified by our members as a major barrier to near term, rapid decarbonisation in the UK, and so Government support is needed to develop the technology for low/zero carbon HGVs, and the wider electric vehicle charging network for retailer and customer vehicles. This will need to be underpinned by a zero-carbon electricity supply from the grid.

Recommendations:

- **Demand-side recommendations**
  - **Introduce grant and tax incentives to ensure a wide uptake of 'Green' fuelled vehicles, including a 0% VAT rate for purchases of new 'Green' fuelled vehicles and a reduced VAT rate for second-hand purchases.**
  - **Deliver wider rollout of public charging and refuelling infrastructure to ensure there is a sufficient number of reliable charging and refuelling points, especially fast charging infrastructure along main roads; and to set out targets of when this will be achieved.**
  - **Provide support and investment in charging and refuelling infrastructure at fleet depots, including funding grid reinforcements.**

- **Supply-side recommendations**
  - **Continue to provide R&D funding to support engine and vehicle manufacturers driving technological advancements and innovations in 'Green' fuelled vehicles and their infrastructure.**
  - **Provide incentives for the UK automotive industry to support investment in giga factories for battery manufacture and assembly in the UK.**

- **Wider recommendations**
  - **Government should lead change and replace their own fleet to be completely ultra-low emission.**
  - **Government should require their contracts to be fulfilled by alternative fuel vehicles.**
  - **Extend delivery times and reduce restrictions in certain geographical areas, for example in London.**

- **Implement changes to weight and dimension regulations that permit the use of larger vehicles which increase efficiency.**
- **Introduce legislation to ensure that businesses transition to 'Green' vehicles within the right timescales (the HGV phase out consultation has started this process) and ensure suitable provision of sustainable and affordable alternative fuels.**

7. Tax-free shopping

We were disappointed with the Government's decision to scrap the VAT Retail Export Scheme (VAT RES), the tax-free shopping scheme for international visitors to the UK, and the airside tax-free shopping concession from 1 January 2021. Across the UK, these reliefs have supported some 180,000 jobs. The VAT RES has helped to attract high-spending visitors to the UK for years, while the airside concession drove as much as three-quarters of airside sales at some airports. The decision to end these reliefs will lead to job losses and harm the retail industry at an already challenging time and we believe that reinstating the airside concession will not only support retailers with a presence at airports, but also these vital elements of national infrastructure themselves.

The Office for Budget Responsibility disagrees with the Treasury's assessment that scrapping the VAT RES will save £500 million per annum, instead suggesting a saving of £195 million in the first full year. Moreover, if the VAT RES were to be reinstated and expanded to EU nationals, industry analysis estimates that this would cost around £300 million – a third of the Treasury's estimation. This would help bolster the UK's reputation as a prime international shopping destination while supporting retail businesses and jobs across the country.