Revo

Retail. Property. Community.

Budget 2017

About Revo
Revo is the organisation that supports businesses in the retail property and placemaking sector. Our unique community includes private and publicly listed retailers and owners of retail property, as well as local councils, and advisors and consultants of all sizes who provide services to our industry.

Our members and the wider retail property and placemaking community are keen to create places people wish to live, work and enjoy their leisure time in, and are keen to work with government to deliver our shared objectives and overcome barriers to create an even more productive and successful sector.

Retail generates approximately £20 billion in taxes and contributes 5% of the UK's total Gross Value Added (GVA) annually. Retail property is the largest asset class in commercial property valued at £360 billion. Well over 3 million people from apprentice to Board Director are directly employed across all corners of the country in retail and retail property.

Dear Chancellor,

From EU withdrawal negotiations to regional devolution to productivity, retail and retail property face any number of risks, but we are aware it is also one of opportunity for growth, investment and development in what is fast becoming the era of cities and regions. It is imperative the Government now takes steps to support our industry if we want our cities and regions to be sustainable and prosperous and our workforce to be skilled and adaptable in a rapidly changing global market.

This Budget must be bright and bold, with investment in infrastructure and housing, technology and skills. It must critically reform the administrative and economic burden placed upon business through punitive property taxes.

This Government will take decisions that will affect our industry for many years to come, on industrial strategy and productivity as well as trade relations with European and international partners.

We must ensure the sector can thrive and prosper now and in the future. Now is the opportunity to take positive steps towards meeting these aspirations and ensure our world-leading retail and property market continues to grow and succeed.

Yours sincerely,

Edward Cooke

Edward Cooke
Chief Executive, Revo

At a glance.

Framework for Business

1. Immediately introduce a 2% cap on the inflationary rise in business rates to protect businesses facing a 3.9% RPI increase due in April 2018.
2. Government must make good its manifesto commitment to review the business rates system.
3. Business rates reform must create an internationally competitive rate of tax that can be adjusted to reflect changing economic conditions (in a similar approach to corporation tax).

Framework for Local Government

4. Local Authorities should be rewarded for taking a strategic approach to economic development – keeping growth returns for up to 25 years – to meet long-term investment needs such as place infrastructure.
5. No Local Authority should suffer as a result of taking on new risk or starting from a limited tax base. Government must continue to provide central support to ensure no region is left behind.

Employment & Skills

6. Introduce flexibility in the Apprenticeship Levy scheme to allow for more creative use of funds that specifically meet the needs of our sector, including a longer cumulative spend period (up to 3 years) so the system can embed in business.
7. Ensure the availability of labour, movement of talent and skilled workers throughout and in the immediate aftermath of EU withdrawal, ensuring employment taxes remain competitive and sustainable.
8. Commit to address future skills shortages by working with industry on the design of a demand-led immigration system.

Housing & Infrastructure

9. Commit to work with industry to identify and deliver small scale transport and infrastructure initiatives across the country.
10. Increase the investment, speed and rollout of super-fast broadband and digital infrastructure to better embrace new technologies and early adoption, with a mandate to deliver full connectivity by 2020.
11. Enable investment in new housing both independently and as part of mixed-use developments.
12. Where appropriate, allow for the conversion of existing commercial stock in town centres to residential use to ease supply and bring footfall back to the high street.

Europe

13. Provide certainty as early as possible on the strategic issues facing the UK as a consequence of withdrawal from the European Union.

Trade & Investment

14. Work with the retail property sector to fund, create and implement a sector specific strategy and 'Retail is GREAT' marketing campaign to promote and attract investment in UK retail.

Framework for business.

01

Immediately introduce a 2% cap on the inflationary rise in business rates to protect businesses facing a 3.9% RPI increase due in April 2018.

September's RPI – confirmed at 3.9 per cent – will lead to a £1.1 billion increase in business rates from April next year. An increase in excess of £1 billion is simply unsustainable, particularly following the delayed revaluation which already caused significant turbulence for many businesses with around an extra £300m falling on retailers and retail property.

This fixed, upfront cost on business cannot continue to rise exponentially and contradicts the Government's promises to help the high street. This sharp rise, by an outdated indexation system, will only compound the negative aspects of the existing business rates' system. Such rises discourage growth and investment at a time when business face acute economic and political uncertainty and withdrawal from the European Union.

Government should:

- Immediately introduce a 2% cap on the inflationary rise in business rates to protect businesses already facing the aftermath of a long overdue revaluation and challenging economic conditions
- Commit to moving forward the timetable for linking the multiplier to CPI indexation from 2020 to 2018 to ensure any rates rise is a fair reflection of the wider economic picture
- Consider long term reform to the provision of fiscal neutrality, and impact of the burden placed on physical businesses versus omnichannel and pure online business

02

Government must make good its manifesto commitment to review the business rates system.

03

Business rates reform must create an internationally competitive rate of tax that can be adjusted to reflect changing economic conditions (in a similar approach to corporation tax).

The retail sector funds around 24% of business rates revenues – which equates to about £6.5 billion – while contributing 6% of the UK's GVA. Since 1990, across retail and other sectors, the business rates tax rate has risen from 34% to 48% of rateable values, making it one of the highest property taxes in the world.

The overall burden needs to come down for businesses large and small. There is widespread consensus in the business community that the system is unfair, outdated, and deters investment.

Government should:

- Create a system that reflects prevailing economic conditions
- Build a system that better incentivises businesses that invest and improve their properties, rather than penalise businesses who take a risk by making property investments to improve their offer to consumers or increase productivity only to consequently see their business rates bills increase
- Enshrine more frequent revaluations at a maximum of three years, with a target to create an annual rates system that negates the significant jumps caused by delayed revaluations and dampen the effect of step changes in the market on rates bills
- Allow for downward movement in business rates payable to happen immediately, and ease the increases faced by businesses of all sizes through transitional relief if affected by a significant rates revaluation;
- Invest capital in the Valuation Office Agency (VOA) to ensure it is capable of delivering more frequent revaluations, capturing, analysing and sharing required data and ensuring credible and fair delivery of services to become an organisation business can have greater confidence in and reduce overall appeals
- Ensure any systems or modelling developed in pursuit of a self-assessment element are robust and enhance the relationship between rate collector and rate payer by sharing relevant data to calculate their rates assessments

Framework for Local Government.

04
Local Authorities should be rewarded for taking a strategic approach to economic development – keeping growth returns for up to 25 years – to meet long-term investment needs such as place infrastructure.

05
No Local Authority should suffer as a result of taking on new risk or starting from a limited tax base. Government must continue to provide central support to ensure no region is left behind.

The Government has sought to pursue business rates retention, which we agree with in principle, but must reward Local Authorities for taking a strategic approach to economic development within the scope of any new powers and across authority boundaries.

HM Treasury must encourage planning for economic development at a supra-local authority level given Local Authorities are rarely completely economically independent from their neighbours and they should be encouraged (including through business rates retention) to work together for the good of their area and economic region. However, competition for increasing respective tax bases must not run counter to the 'duty to co-operate'.

A more strategic and forward thinking approach to economic development encouraged through rates retention could be enabled by introducing mechanisms such as:

- Authorities can keep all or most business rates growth for up to 25 years (and across reset periods)
- Business rates income within a designated area can be 'ring-fenced' to support capital investment (e.g. public realm works)
- Authorities can target reduced rates at particular areas or types of business in their areas, rather than having to apply it unilaterally
- HM Treasury must ensure certainty of income and provide a cushion for those facing temporary difficulty or with a limited tax base

The demand for statutory services provided by Local Authorities is also likely to outgrow business rates revenues. We remain concerned that the proposals will mean that in the long term Local Authorities are able to spend even less money on economic support services and investment than at present.

More consideration must be given to what happens if business rates does not deliver enough money to cover required spending; property taxes cannot simply rise exponentially.

Employment and Skills.

06

Introduce flexibility in the Apprenticeship Levy scheme to allow for more creative use of funds that specifically meet the needs of our sector, including a longer cumulative spend period (up to 3 years) so the system can embed in business.

While the goals of the Apprenticeships Levy are admirable, the imposition of the Levy has not been without teething problems. Companies would be keen to see changes to how Levy money can be spent that would both help to upskill our workforce but cater to business need, to ensure that skills developed are relevant and applicable to the sector investing.

Though business has been seeking solutions within the existing framework, employers have been hindered by the lack of Registered Training Providers – which has meant that businesses have less choice when it comes to choosing who delivers their apprenticeships – and market relevant courses and products

The Levy has led to a significant increase in demands on internal budgets for little gain. Some businesses are now paying both wages and training budgets for apprentices, yet providers are not yet positioned adequately to allow business to access the right courses and invest in both future skills and the future of the business. Some businesses have been forced to write this off as a cost.

To address the imbalances that the Levy places on the retail and retail property sector, possible amendments include:

- The ability to create new and recognised apprenticeships in partnership with registered training providers who can be registered so that a business could draw down funding for an apprenticeship identified as a business need within the existing framework.
- A longer spend period in the first three years to allow for training providers to create the appropriate apprenticeships centred on business need. Currently the right apprenticeships are not on offer and the potential the levy is designed to realise will be lost by a 'use it or lose it' approach while the system embeds in business
- Amend the 80/20 'on the job' versus 'off the job' split. Whilst we acknowledge the government has published more guidance on what counts as 'off the job' learning, there is still uncertainty which makes employers nervous. Further clarity and more flexibility with what can be included is the 20% 'off the job' learning would make apprenticeships a more attractive proposition for upskilling current staff and the nation as a whole
- Allow for funds to be used to cover replacement for 'off the job' work where an employees' function must be covered by other staff during their training (i.e. back filling)
- Allow employers the ability to ring-fence Levy payments to include training as part of contracted suppliers and key partners who typically provide specialists or workers via subcontracts (e.g. security and facilities) yet perform a vital role in the sector

07
Ensure the availability of labour, movement of talent and skilled workers and that employment taxes remain competitive and sustainable.

08
Commit to address skills shortages by working with industry on the future of demand-led immigration.

There is real concern about skills shortages and the possible tightening of the labour market in the process and aftermath of exiting the EU; and consequently the rights of EU citizens already working here. Our industry is highly reliant on the mobility of workers and is already experiencing shortages. Government must focus upon training, skills and the ability to attract and retain talent from across the globe to ensure the necessary workers are available to support the needs of our sector.

A tighter labour market could also mean higher wage costs amid concerns over increased staffing overheads and operating costs at a time when businesses are under increasing cost pressures and facing new challenges such as digitalisation and changing consumer behaviours.

The impact of the Apprenticeships Levy will also impact the sector significantly and must be geared to support business need.

Government should:

- Ensure the rights of EU citizens already working in the UK to ensure we do not face an immediate skills shortage in the aftermath of EU withdrawal
- Work with industry and other partners to promote the enormous and diverse opportunities already available, including apprenticeships and lifelong careers and professional development; Revo is fully committed to this through our Educational Trust, Retail Path and Retail Matters campaigns.
- Ensure the retail and retail property industry is part of the conversation on the immigration scheme in a post-Brexit world to ensure that there is no short term skills shortages and that we continue to attract the best and brightest to our industry.

Housing and Infrastructure.

09

Commit to work with industry to identify and deliver small scale transport and infrastructure initiatives across the country.

Our research indicates that digital infrastructure is seen as a significant attraction amongst retailers looking to enter or expand in the UK market compared with rival economies. Digital connectivity also helps to connect the regions to both domestic and international markets. This must be capitalised upon in order to maintain our world leading position.

Government should:

- Ensure investment in, and the rollout of, superfast broadband and associated infrastructure which not only benefits the creative industries and technology sector but serves the growing role technology plays in retail, hospitality and leisure
- The tax system must evolve to reflect the changing digital environment and rise of omnichannel and pure online sales (for which further work is needed), aligned to a detailed review of the appropriateness of the business rates system for retail and retail property in the modern economy

10

Increase the investment, speed and rollout of super-fast broadband and digital infrastructure to better embrace new technologies and early adoption, with a mandate to deliver full connectivity by 2020.

While the need and appetite for Government to invest in large scale infrastructure such as HS2 and Crossrail continues, small scale infrastructure sits at the heart of physical spaces and connectivity across the country. Small scale infrastructure can often generate a greater economic return on investment than many large scale projects, be delivered more quickly, and have a profound impact on quality of life in a given area.

Streamlining logistics and improving footfall will attract retailers and investors to urban centres outside the capital and ensure sustainability and better community engagement. It can also join economic centres to critical national infrastructure so that they too can share in the wider benefits and catchment of major transport and infrastructure projects which might otherwise bypass them.

Government should:

- Create a ring-fenced fund specifically for small scale infrastructure investments for which Local Authorities are able to bid and / or match fund
- Work with industry across a range of new-build, maintenance and renewal projects in towns and cities that enable economic growth through improved connectivity for business and consumers
- Encourage more of the existing public infrastructure funding available and distributed through Local Enterprise Partnerships (LEPs) be allocated to smaller scale infrastructure improvements to support the adaptation of our physical retail environments. We believe a stronger message from central government is needed to support this

11
Enable invest in new housing both independently and as part of mixed-use developments.

12
Where appropriate, allow for the conversion of existing unoccupied commercial stock in town centres to residential use to ease supply and bring footfall back to the high street.

The housing crisis is well documented but does not exist independently from good placemaking. Policies to mend the housing market must consider other important matters including, for example, the competing needs from other land uses in our town centres and urban areas; and the need to ensure that the places we create meet the needs of future generations.

The successful delivery of housing, supported by services, infrastructure and connectivity create place, support long term sustainable value.

Government should:

- Enable investment more in new housing stock (including affordable housing) both independently and as part of mixed use schemes and retail-led regeneration projects
- Where appropriate, working with Local Authorities and decision makers, allow for the conversion of existing long term unoccupied commercial stock in town centres to residential use to ease supply and bring footfall back to the high street, while protecting essential retail and hospitality via smart planning and zoning

Other key considerations for Government may include amendments to the National Planning Policy Framework, including identifying residential as a 'main town centre' use, simplification and delivery of strategic Local Plans with proper resourcing, and densification of town centres by building upwards to best utilise space in already connected places.

Europe.

13

Provide certainty as early as possible on the strategic issues facing the UK as a consequence of withdrawal from the European Union.

Responding to the UK's decision to exit the EU remains challenging for any business, as policy is still evolving. It is important that the retail and retail property sectors, given their collective economic significance, are a core constituency of government's negotiations for exiting the European Union. Working through the Property Industry Alliance, we have highlighted five key areas – Capital, Construction & Development, Skills, Tax and Sustainability – that are essential to making a success of Brexit.

- **Capital**: Overseas investment in real estate is a highly significant driver of GVA and productivity, and must not be put at risk by Brexit. Foreign investors own 28% (£135bn) of UK commercial property held as investments (not including housing and student accommodation). They often partner with UK investors and other organisations. An effective and efficient commercial property market produces investment in the physical, and digital, fabric of towns and cities across the UK, creating jobs, improving environmental performance and generating at least £16bn directly to government through taxation.

- **Construction/development**: EU public procurement rules are inefficient, often misunderstood and therefore uncertain, and Brexit offers a real chance of streamlining the system, which will increase the velocity of investment.

- **Skills**: Our industry (investment/asset management and construction) is highly reliant on the mobility of workers and is already experiencing a skills shortage. We need a post Brexit response that focuses upon training, skills and the ability to attract and retain talent from across the globe.

- **Tax**: A simplified and fairer tax regime for the real estate/infrastructure sector post Brexit would increase domestic activity, and retain/improve our competitive position with regard to overseas sourced capital. The most obvious opportunity is VAT, where the UK's freedom of action has been constrained by European law and the case law of the European Court of Justice.

- **Sustainability**: Brexit represents an opportunity to revamp the complex/ inefficient environmental sustainability regulatory framework, to provide better more efficient long-term solutions and green growth. We would undoubtedly want to retain some UK legislation derived from EU rules, form other areas and indeed remove particularly ineffective laws.

Trade and Investment.

14
Work with the retail property sector to fund, create and implement a sector specific strategy and 'Retail is GREAT' marketing campaign to promote and attract investment in UK retail.

There is an opportunity for government, working with industry bodies, to educate and encourage international retailers and investors so that they see the opportunities and can overcome the challenges of this vibrant sector. Population density, sales density and fewer law-making institutions with which to contend combine to make a compelling story for investors at home and abroad, coupled with a liberal environment for business. Businesses which have found a gap in the market have thrived, and benefited from the sophistication of the market and British consumer.

Government should:

- Promote retail through existing channels such as the 'GREAT' campaign – the Government's international promotional campaign showcasing the best the UK has to offer to do business, invest and visit – along with the Department for Business, Energy and Industrial Strategy (BEIS) and Department for International Trade (DIT) to showcase our market to new investment, embolden expansion plans and promote our own retailers and exporters to new markets

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