BRITISH RETAIL CONSORTIUM

Barker Review of Land Use Planning
A response from the British Retail Consortium

The British Retail Consortium (BRC) is the lead trade association of UK retailing and exists to defend and enhance where possible, the economic, political and social climate in which its 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, BRC members 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.

Introduction

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, planning restrictions threaten to undermine the contribution the retail sector can make to the delivery of sustainable communities.

This paper will examine these issues in more detail and will consider what measures the Government can introduce to promote sustainable retail development via reform of the planning system. The following issues will be considered in detail:

- Impact of planning constraints on occupation costs in the retail sector
- Local Government funding
- Reform of the planning system
- Funding the planning system
- Role of regional and local planning
- Retail investment in deprived areas
- Impact of transport planning policy on the retail sector
- Planning for Climate Change

Changes to UK Retailing

The last 40 years have seen rapid change in the retail scene. The offer has become increasingly sophisticated; there is now a much wider range of retail formats and crucially, retailing no longer takes place exclusively in the high street. However, retail investment in town centres now exceeds out of town and edge of town development for the first time in nearly two decades.

In recent years, other forms of retailing activity have flourished such as farmers markets, farm shops and other specialist retail outlets, as consumers increasingly seek out retail experiences that provide an authentic experience and sense of place, support for this type of retail activity is likely to remain strong.

Retailers of all sizes benefit from a vibrant and diverse retail offer; multiple retailers drive footfall, anchor regeneration projects and provide employment opportunities for the local community. Independent retailers provide a specialised local product range and outstanding customer care.

Retailers recognise that to attract customers to town centres there must be variety and quality on offer on a high street, with a mix of businesses and an accessible, safe and enjoyable shopping experience. This is why they work together on so many projects to improve the overall retail environment.

Despite the rapid expansion of on-line retailing, it is unlikely to eradicate the need for a physical presence on the high street. The physical store in high profile locations will remain the tangible manifestation of the brand.

Impact of planning constraints on occupation costs in the retail sector

Property cost analysis

Property costs are the second biggest cost for retailers after wages and are currently rising much faster than sales growth. High rents as a result of upward only rent reviews and other inflexible leasing practices are making it increasingly difficult for multiple retailers to continue trading on the high street. For small independent retailers who are rarely in a strong position when negotiating with a property owner over the terms of a new lease, the cost of securing a foothold on the high street is often prohibitive. While a competitive market, the limited supply of accessible retail property (principally a product of the planning system) has driven up rents in prime locations. The prevalence of upward-only rent reviews in the UK commercial property market ensures that upward pressure on rents is set to continue.

- The retail property market is worth over £200bn[1], about one third of the total capital value of commercial stock, with an estimated rental value of approximately £15bn[2].
- Estimating the cost to the industry as a whole, property cost in total are approximately 3 to 7% of sales.
- Between 1998 and 2003 the rental value of retail[3] rose by £2.9bn to over £13.5bn[4]. Rental growth has continued to rise by 4% annually over the past two years, or a further £1bn bill by 2005/6.
- In the United Kingdom, average rents per metre squared are £110[5]. The average total selling space for a UK retailer is 260,880 metres squared[6]. The average rent therefore is £28.7 million a year (£110 * 260,880). Retailers tend to pay rent quarterly, meaning on average, over £7 million paid in rent every four months.
- Taking total average sales per square metre of £1.04 billion (£3,982 * 260,880) and the total rental cost, these retailers pay rent equating to 3% of sales.
- Smaller retailers will tend to incur rent as a higher proportion of overall costs, paying between 7 and 10 % of sales in rent.

Commercial leases in the retail sector

Leasing is vital to retailers who need to be flexible to meet changing consumer demands and because of this the industry is highly exposed to the inflexibility and high costs associated with occupying commercial property in the UK. On the whole, retailers prefer to lease rather than buy their premises as the ability to terminate, or renegotiate leases and to receive landlord finance in the form of contributions to fit-out costs make leases commercially flexible in a way that freeholds are not. For the retail sector, leases are a commercial necessity and a valuable business tool, providing retailers with greater flexibility and improved cash flow. Without the flexibility of leasehold units, retailers are unable to react swiftly to changes in the business cycle which could leave them vulnerable to market downturns.

[1] IPF: *Size and Structure of the UK Commercial Property Market* (2005)
[2] Ibid – figure calculated as of end-2003
[3] Including retail banks
[4] This is the difference in rateable value for shops, markets and 25% of warehouses as provided by the Valuation Office Agency
[5] ODPM
[6] Mintel International – Based on 100 retailers sales areas (m2 000).

Retailers however are still subject to upward only rent review provisions and other restrictions in the commercial leases market making it difficult to obtain leases that best meet their operational needs. This is a particular problem for small to medium sized businesses which cannot compete for property in the high street. In most market conditions, landlords have the upper hand and lease conditions are more likely to reflect the landlord's requirements than meet the business needs of the tenants. The UK is the only country in Europe where upwards only rent reviews, lengthy leases, and a modified form of privity of contract co-exist. Unlike shares where income can rise and fall, the rental income from commercial property rarely declines. No other sector (except government bonds) provides this kind of guaranteed long-term income stream.

An important element of flexibility in the commercial property market is the ability of occupiers to dispose of their premises when they no longer need them although almost all commercial leases usually restrict the tenant's ability to do so. Restrictions on subletting and assignment are designed to protect the status quo for the landlord and represent an onerous burden on retailers, particularly in the event of a market downturn. Such arrangements restrict the free movement of the market, especially against the background of an unprecedented demand for property but shortage of supply.

Alienation restrictions can prevent retailers moving to premises more suited to their needs limiting retailers' ability to respond to changing consumer demands and market conditions. This can often result in shops in town centres being left vacant years after retailers have moved out, preventing retailers from reacting swiftly to changes in the business cycle and many commercial tenants, particularly small shop keepers suffered during the recession in the early 1990s as a result. Small retailers have particular difficulties in getting to know which properties are available. Landlords typically approach national names and rarely seek, or even need to seek, independent or potential new retail businesses.

Recommendation: Government must continue to monitor commitment by landlords to offer alternatives to upward only rent reviews and adherence to the industry-approved code of practice on commercial leases.

Local Government Funding

The revaluation of the non-domestic rate in England has brought with it a £500m plus increase in rates bills specifically to the retail sector. Annual liability now exceeds £4.5bn[7], exceeding that of any other sector. Many small firms will see an increase in their business rates bills but retailers across England are being hit the hardest with an average 15.7% increase in costs. In the South East of England retailers face a 19% rise and warehouses face a 22% rise[8]. These costs are partly mitigated by transitional rate relief. Average yearly increases for some of the largest retailers amount to 7%-9%.

Further increases have been experienced by the implementation of the self-funding small business rate relief and the government's decision to increase the business rate yield by 9.6% in 2005/6.

Rates are a high yielding tax. The Treasury estimates that for 2004/5 the UK rates revenue will account for about 4.2% of total tax revenue. Set internationally, this percentage is three times higher than any European country and higher than the United States.

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

[8] Federation of Small Businesses

The ongoing review of local government finance is of concern to the retail sector due to the resulting uncertainty in future financial planning. Potential changes to the system of non-domestic rates or the introduction of wholly new taxes (e.g. localised sales taxes) would unlikely be cost neutral to retail. Such uncertainty, in the face of already dramatic increases in property costs, will likely delay some investment decisions until government intentions are known.

Recommendation: Ministers must consider the context of significantly rising costs and falling prices when evaluating potential changes to the system of business taxation. A clear signal of intent would aid financial planning and a commitment to reduce or make cost-neutral changes in property tax would greatly support long-term investment.

Recommendation: Ministers are advised not to view the non-domestic rate in isolation but consider the totality of businesses' rising regulatory and financial commitments. Further increases in rates or the introduction of multiple local charges would likely have damaging consequences to business vitality.

Reform of the planning system

The UK's comparatively high property costs are not simply a function of an inflexible leasing market. Retailers are also hampered by a planning system that can sometimes act to prevent investment and regeneration.

At its best, planning can add value to local communities by protecting and improving the quality of life and enforcing standards, and it can provide certainty for business investment decisions. It is also an expression of the economic and social priorities of the local community. But persistent under-funding of planning directorates within local authorities and poor management mean that regeneration projects that offer major social and economic benefits can take years to progress through the planning system because of appeals, delays, and inquiries.

Future innovation, growth, and productivity in the retail sector are heavily reliant on property development and redevelopment. Policies that make retail property investment and development less viable, or the occupation of property more inflexible and expensive for retailers will also have widespread economic and social implications.

<u>Funding reform of the planning system</u>

The BRC supports the recent drive by Government to create a faster, simpler and fairer planning system and recognises that an increase in resources for local planning authorities is essential to deliver this goal. Consequently, retailers are prepared in principle, to increase their contribution towards meeting the costs of their applications, provided the additional cost is accompanied by a tangible improvement in service quality.

With fees for a major development now at £50,000 from 1 April 2005 (a 355% increase from the previous fee of £11,000) and many local authorities charging for pre-application discussions, navigating an application through to consent is an increasingly costly process. It is essential that these additional charges represent good value for money and applicants receive an improved service that adequately reflects the additional cost to the user. Failure by local authorities to invest sufficient resources into the planning system is likely to delay development, increase the cost to bring new stores on line and in some instances mean that development simply does not take place.

An increasing number of local authorities are now charging for pre-application advice. Retail developers are right to expect to receive clear, detailed and unambiguous advice in exchange for this additional fee. Clear national guidance from Government is essential if the system is to operate transparently and fairly.

We are concerned that formalised charging arrangements may prevent early discussions between local authorities and applicants – pre-application discussions are essential for achieving the culture change within the planning system that the Government is seeking.

Recommendation: Planning Application Fees generated by major retail applications should be ring fenced for spending on Development Control and the payment of such fees should guarantee, for example:
- adequate meetings for the applicant with the Heads of Planning and Transportation sections at the Local Authority
- a timetable for delivery from the LPA.

Recommendation: Any formalised arrangements for charging should not be used by local planning authorities as simply a means of generating additional revenue. Government must ensure that policy in this respect does not undermine or discourage this important planning tool.

The role of regional and local planning

Regional Development Agencies (RDAs) are instrumental to delivering improved economic performance across the regions and their key purpose is to co-ordinate regional economic development and regeneration, enabling the English regions to improve their relative competitiveness and reduce the imbalances that exist within and between regions.[9]

Retail is a major employer and investor in every region and can therefore help to achieve these aims, and has the potential to underpin or enable objectives such as regeneration, skills and crime reduction. Closer relationships between RDAs and retail could therefore result in mutually beneficial outcomes.

Within Regional Assemblies and the RDAs there needs to be greater understanding of the role retail plays in contributing to regional economic performance. Possible areas for strategies to consider are: regeneration initiatives; skills development; information sharing; reducing crime, transport congestion. We believe that this would provide useful input to Regional Economic Strategies (RES). This should also lead to more cohesive input on the impact of retail to the Regional Assemblies when they are formulating their Regional Spatial Strategies (RSS), and help in the formation of strong local strategic partnerships.

Clearly many industries, including retail, are not yet thinking and organising on a regional basis. Sectors of the economy that have become used to sustaining their relationships with government at the national level now have to develop new regional ways of working. However, the regional focus needs to recognise that a number of key issues need to be determined nationally.

Retailing is a complex and dynamic industry and the BRC is concerned that at present, regional planning bodies lack the necessary skills and experience to assess retail needs. There is a danger that this gap in skills could lead to inflexibility at a local level and a tension between the aim to meet "local needs" and the emphasis on regional retail targets.

Furthermore as retail profitability becomes more volatile retail formats are increasingly dependant on large catchments to sustain productivity and viability. Retail catchments and markets are not easily contained within local or regional administrative boundaries.

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[9] Regional Growth: A Report Prepared for the ODPM, HM Treasury and DTI. Frontier economics. September 2004.

Recommendation: It is essential that local planning authorities be provided with the necessary resources to undertake the additional work that central Government requires. Placing an additional burden on planning authorities without providing additional resources is likely to result in a poorer planning service.

Retail investment in deprived areas

In the past, deprived communities may have often been underserved by their existing retail facilities. This can result in poor access to affordable goods and services, reduced employment opportunities for local residents, and an increased need to travel outside of the immediate or surrounding community to more affluent areas in order to meet a variety of convenience and comparison shopping needs.

The retail sector is now leading the way in private sector investment into deprived communities. The retail industry is not the only or most important investor in deprived communities, but it can act as a potent, early catalyst in the regeneration process. Specific regeneration and social inclusion benefits provided by retailers include:

- access to goods and services;
- contribution to strong and diverse local economies;
- support of local regeneration plans;
- built environment improvements;
- gateway and adult returnee employment and training opportunities;
- local and minority business development through construction,
- service and purchasing contracts;
- anchoring of existing SME and local businesses through increased footfall;
- crime reduction;
- job opportunities for socially excluded populations;
- increased corporate social responsibility support to communities;
- the attraction of additional investment to the community and possible effects for health, dietary intake, and the development of social networks.

The impact of transport planning policy on the retail sector

Transport is vital to success of the retail industry. Retailers rely on access to transport for the daily operation of their business – to access their customer base, deliver goods, and to enable their employees to reach the workplace. Weak transport links and inadequate parking provision threaten the viability of the retail sector and jeopardise the sector's contribution to the UK economy. Delivery restrictions, charging schemes, car parking and public transport must take into consideration retail needs to ensure that town centre and urban developments continue to attract sustained retail investment.

Customers should be able to arrive and leave easily by a variety of modes of transport, including by car, particularly for goods that by virtue of their size or collective weight cannot be carried on public transport. Clearly, the driving public would prefer to have free, and unrestricted parking. However, they are prepared to accept some form of control if it is delivered in the right way. If car-parking provision in the town centre is poorly located, unfairly or badly managed or if it is simply insufficient to meet demand, retail customers will literally be driven away.

Government policy should encourage local authorities to develop a greater alignment between retail and transport planning. Current planning policy is designed to meet local needs by allowing local communities to shop locally but says nothing of the barriers which make town centre operations difficult. For retailers there are a number of reasons why the town centre is not attractive, such as poor transport links, inadequate parking facilities, and restrictions on deliveries.

Insufficient parking provision reduces the viability of the town centre as a retail trading location. Current planning guidance recommends as standard a maximum of 1 parking space per $14m^2$ for food retail and 1 parking space per $20m^2$ for non-food retail (for retail outlets in excess of $1000m^2$). Since the introduction of PPG13 in 2001, retailers have come to accept these standards as being more realistic than previous measures to manage parking provision.

Evidence suggests that the current standards work quite well for out-of-town retail but are often inadequate for mixed use or town centre developments since they do not take account of the duration of stay – i.e. the turnover of spaces. For example, a visit to do a main food shop might take 45 minutes in an out of centre location. However, in a town centre or edge of centre location shoppers will often carry out linked trips to other shops or to access other town centre services and may stay in that space for an hour and half or longer. Ideally, in these locations, parking provision should be flexible enough to provide some longer stay parking to give customers enough time to shop locally and visit the town centre comfortably.

Recommendation: Government needs to promote a greater alignment between planning policy and transport policy to maximise access and connectivity between retail locations and the communities they serve.

Congestion

Congestion represents a significant cost to retailers who rely on the road network for access to customers, staff, and the delivery of the goods they sell. It is essential however that charging schemes are developed in partnership with the local retail and business community. With the high fixed costs retailers pay to trade in town centre locations, even the smallest variations in sales can have a disproportionate impact on retail profits and hence on investment and location decisions.

Many town centres demonstrate the risk that well-meaning traffic control measures or attempts to improve the use of public transport may in fact achieve exactly the opposite. Public transport plans are in the main designed to radiate to and from town centres and little attention is given to how public transportation can be managed differently to increase the connectivity within the retail network and link underserved communities with retail provision. Equally little attention is paid to find alternative ways to manage the car use that will maximise accessibility and meet environmental objectives at the same time.

The introduction of congestion charging schemes and other traffic control measures can be a strong disincentive to visiting town centres, while increasing parking charges simply punishes motorists without achieving any impact on reducing congestion. There must be real incentives to use public transport, rather than costly deterrents from driving. A greater alignment between planning for retail and transportation is essential if retailers are to succeed in delivering a retail led urban renaissance.

Recommendation: Maintain current parking standards - further caps on parking spaces will act as a disincentive to new retail development and will mean that in marginal locations development will simply not take place.

Retail Deliveries

Deliveries are important to all industries, but particularly to the retail industry, where the primary business function is to bring products and services to customers. The retail consumer increasingly expects a full range of high quality products, available throughout the year at reasonable prices. The challenge for retailers is to balance the need to reduce cost and streamline operations with the need to have products available at all times.

In striving to make deliveries as efficient as possible, retailers seek to avoid traffic congestion and so aim to avoid peak travel times, by making use of the road during the night. However, store access can be restricted by delivery curfews, as a result of planning restrictions established when the store is built or noise abatement orders implemented by a local authority after the store has opened. Almost one third of retailers are affected in this way.

Freight transport technologies have advanced in recent years to provide quieter deliveries. While retailers are demonstrating good practice by investing in noise abatement technologies and specific training for their drivers, there is scope for local government to consider levying delivery curfews on a case-by-case basis, when they are suitably justified. It also strengthens the case for more flexible curfews, with a relaxation of 1-2 hours on either side of the existing delivery curfew time.

The removal of delivery curfews and improving the operation of freight vehicles could potentially offer significant benefits to everyone by reducing congestion and bringing environmental benefits. Being able to deliver at night would remove some lorries from the peak traffic travel periods, allow optimisation of the road network and maximise the availability of products for customers.

Recommendation: Support the relaxation of local delivery restrictions where appropriate – pushing delivery vehicles into peak travel times contributes to congestion and increases CO^2 emissions.

Green travel plans

The majority of retailers now have travel plans in place to promote greener travel choices and reduce reliance on the car. Retailers make every effort to ensure these plans are successful in encouraging staff and customers to make use of more environmentally friendly alternatives than driving alone, at least for some of their journeys. Many retailers regularly assess the performance of individual travel plans and adapt the plan in accordance with the changing circumstances of their business operations. Travel plans are now also a regular feature of the planning process and retailers work very closely with local planning authorities to agree the formulation of travel plans during Section 106 negotiations.

Planning for Climate Change

The BRC takes the threat of climate change very seriously and we believe that the planning regime an appropriate mechanisms to ensure that new developments are environmentally sustainable. Our members support efforts to improve energy efficiency and cut greenhouse gas emissions and we continue to work with Government to promote environmental best-practice in our sector.

We welcome the introduction of Planning Policy Statement 22 (PPS22), which we see as a key policy document for delivering renewable energy schemes in England. The prospective amendment to the energy efficiency provisions in the Building Regulations for England and Wales should also improve performance standards and encourage developers to consider the benefits of renewable systems.

Barriers to developing renewable technologies in the retail sector

The retail sector has the potential to go some way in helping the Government meet its ambitious target of generating 10% of the UK's electricity from renewable energy by 2010. However, an anomaly in the rating system is leading the Government to perversely tax business investment in micro-renewable systems.

For valuation purposes the Valuation Office Agency (VOA) does not make a distinction between small-scale renewable energy plant and traditional fossil fuel burning power generators. This rating of small-scale renewable plant is perverse in so far as retailers who look to reduce their carbon emissions by investing in renewables are penalised with increased rating liability.

For the retail sector, and indeed other business sectors operating these systems, micro-renewables are not a cost saving device and at the present time it is still more cost effective for retailers to source their energy needs from the national grid. The rating of micro-renewables further re-enforces this situation and our members have told us that this policy is likely to be a disincentive to installing micro-renewable systems.

This concern is further echoed in Ernst & Young's global renewable energy market report, which ranks the UK as one of the two most attractive countries in the world for investment in renewable technologies. However, in the most recent edition of the report, the UK's position is downgraded for the first time because of the Government's business rates regime. The report goes on to warn that the UK could drop further over the next few years if onshore build rates do not pick up.

Recommendation: ODPM Ministers should bring rating policy inline with wider Government thinking on climate change and exempt renewable energy plant and machinery from valuation.

Conclusion

Most people regard a thriving, prosperous retail centre as a key ingredient for the success of their community. The quality of retail provision can have an important bearing on the perceptions of a town or region and can help to build a national and international reputation as a premier destination in which to invest, work, live, visit and learn.

Retailers of all sizes benefit from a vibrant and diverse high street, but this is a complex area that can not be solved by simple legislative processes being implemented and the Government must reduce the barriers to the retail industry as retail development can make a positive contribution to building sustainable communities in both town centre and out of town locations.

We urge the Barker review to consider the following BRC recommendations:

Recommendation: Government must continue to monitor commitment by landlords to offer alternatives to upward only rent reviews and adherence to the industry-approved code of practice on commercial leases.

Recommendation: Ministers must consider the context of significantly rising costs and falling prices when evaluating potential changes to the system of business taxation. A clear signal of intent would aid financial planning and a commitment to reduce or make cost-neutral changes in property tax would greatly support long-term investment.

Recommendation: Ministers are advised not to view the non-domestic rate in isolation but consider the totality of businesses' rising regulatory and financial commitments. Further increases in rates or the introduction of multiple local charges would likely have damaging consequences to business vitality.

Recommendation: The Planning Delivery Grant should be ring fenced for spending on planning departments.

Recommendation: Planning Application Fees generated by major retail applications should be ring fenced for spending on Development Control and the payment of such fees should guarantee, for example:
- adequate meetings for the applicant with the Heads of Planning and Transportation sections at the Local Authority
- a timetable for delivery from the LPA.

Recommendation: It is essential that local planning authorities be provided with the necessary resources to undertake the additional work that central Government requires. Placing an additional burden on planning authorities without providing additional resources is likely to result in a poorer planning service.

Recommendation: Government needs to promote a greater alignment between planning policy and transport policy to maximise access and connectivity between retail locations and the communities they serve.

Recommendation: Maintain current parking standards - further caps on parking spaces will act as a disincentive to new retail development and will mean that in marginal locations development will simply not take place.

Recommendation: Support the relaxation of local delivery restrictions where appropriate – pushing delivery vehicles into peak travel times contributes to congestion and increases CO_2 **emissions.**

Recommendation: ODPM Ministers should bring rating policy inline with wider Government thinking on climate change and exempt renewable energy plant and machinery from valuation.