



Welsh Budget 2021-22
WRC's submission - November 2020

HEADLINE RECOMMENDATIONS

- Fulfil the commitment to a Retail Enabling Plan, as outlined in the Welsh Government's 'Prosperity for All: Economic Action Plan'.
- Identify opportunities to reignite consumer confidence and footfall in our town and city centres.
- A phased re-instatement of Non-Domestic Rates (over 2 years up until the next revaluation) after April 2021 or extended relief or discount.

RECOMMENDATIONS

This year has seen retail businesses face unprecedented challenges and the sector as a whole has shown agility and resilience in responding to the needs of customers, colleagues and local communities. However, in order to hold a steady course, businesses need certainty and support from the Welsh government to enable both immediate and long-term decisions on capital and resource. It is crucial that MSs take a collegiate approach and ensure a Welsh Budget which supports economic recovery is passed swiftly and without delay. While robust debate and scrutiny over the coming weeks is entirely right and necessary, this is a transformational moment for retail. With the right support from government, the industry can continue to adapt to serve the rapidly changing needs of its customers and local communities.

Retail Strategy

While we recognise the unique nature of Covid has required rapid policy decisions, it is disappointing that recent Government decisions have not always taken account of the voice of retailers on the practicality of decisions related to the sector. Retail is a fast-paced environment with a wealth of insight and experience and our members are always ready at short notice to provide input to limit unintended consequences that damage consumer and voter confidence. This heightens the need for a sector first approach for retail within the Welsh government.

In December 2018 the Welsh Government's Economic Action Plan committed to the publication of a retail industry enabling plan. It remains a priority to identify the challenges and workable solutions in the interests of consumers and the communities that rely on the retail industry. Moreover, it requires debate around how to best support the industry over the coming months to ensure the economic consequences of Covid-19 are as limited as possible.

Such an approach would mirror the recent Scottish 'Programme for Government' where a welcome commitment was made to working with the industry to develop a Scottish retail strategy. A positive commitment to an industry enabling plan would result in a more strategic approach towards supporting and nurturing the growth of the industry, Wales's



largest private sector employer, helping it fulfil its potential over the decade ahead. This will benefit retail, jobs, the customers and local communities it serves, and its supply chain.

Town and city centres

The three phases of the Economic Recovery Grant, in addition to the Non-Domestic Rates grants, have provided welcome financial assistance for retailers as well as for Wales's high streets during the depths of lockdown. In addition, the establishment of the Ministerial Advisory Group on Town Centres is welcome recognition of the need for a multi-agency and location approach to the growing challenges we face.

However, the shop vacancy rate now stands at over 18% with almost one in five stores vacant, placing Wales firmly at the bottom of the table when it comes to open premises. Footfall in Wales has been particularly damaged during recent months given the more restrictive travel arrangements from local lockdowns.

In light of these challenges, and those on the horizon, we would recommend bolstering the Transforming Towns budget, with the remit of the fund being focused on those areas most hard hit by the current crisis.

Retailers have invested in adapting their premises to be Covid-secure to allow customers to shop safely. We would welcome Government support in reigniting consumer confidence and encouraging people safely back into our larger towns and city centres, particularly ahead of the crucial Christmas trading period. Options include free parking during November or December or at weekends, discounted public transport, or government using its considerable advertising spend to make clear our cities are 'open for business'.

City centre retail in particular is currently reporting huge drops in shopper footfall, down circa 30%, and premises in those areas already have high occupancy costs. Local lockdowns have had a particularly acute impact, and this is borne out in footfall figures which shows Welsh cities and towns faring worse than those areas that are not facing travel restrictions.

A protracted absence of office workers and tourists and of the attendant hospitality and night-time economy will have a commensurate impact on commercial and economic activity in our cities, and without a plan for their safe return the short term looks bleak for many retailers in these locations. In addition, we need to address these challenges in light of the commitment by the Welsh Government to 30% home working post pandemic. Any failure to re-start the economy in our larger towns and cities will have tax revenue implications for councils, such as fewer receipts from business rates.

It is vital that we do not resign ourselves to the demise of retail on our high streets, but we work collaboratively and do all we can to save retail premises from closure, ensuring a mixed space and vibrant offer for consumers and visitors to our town centres.

Non-domestic rates

The 100% business rates waiver during 2020-21 for Retail, Hospitality and Leisure sectors under a rateable value of £500k has been vital and timely for the retail industry, much of



which had to cease trading during the early part of the pandemic. Ministers acted decisively and swiftly to back to the industry at a time in which it faced substantial fresh outgoings related to physical distancing measures, hygiene and PPE, higher absenteeism levels, revamping of their online and fulfilment capabilities, and at a time when much of the industry continues to witness lower footfall and a prolonged weakness in shopper footfall.

However, we outlined our concern at the time that the Welsh Government chose not to award this relief to business with larger store propositions, many of whom are major employers in our local areas. This concern remains given the undoubtedly difficult challenges our members will face as they look at their business model over the new few months. This issue needs addressing; many large premises have been hit by local lockdowns and the recent firebreak and have had to continue paying their business rates bills in spite of being forced to close by Government.

The economics of store-based retailing has shifted permanently. The sheer cost of property continues to weigh on upcoming decisions over the viability of stores. With retailers revenues continuing to fall short, especially in city centres, and with shops unable to trade at capacity due to physical distancing restrictions and caps on numbers in stores, next April's 'reverse cliff edge' - which is set to see a 100% re-instatement of business rates – is simply not sustainable. Revenues and costs continue to be out of kilter and returning to a business rate multiplier at a 21-year high is unthinkable.

A phased re-instatement (perhaps over 2 years up until the next revaluation) or extended relief or discount will be required. It would provide a cashflow and confidence boost at a time when repayments commence for various Covid loan schemes and tax deferrals next Spring, and the re-start of BID levy payments.

We understand that more fundamental reform of business rates is being looked at in Westminster as part of the review of local government taxation and we continue to press for a concerted route map which will seek to lower the multiplier rate to a more sustainable level, and which finally restores the level playing field with England.

Small firms' rates relief recognises the need to keep down costs for firms, albeit three quarters of retail employment is with firms who do not qualify.

Consumer demand and income tax

Despite retailers' own efforts and promotional activity, consumer demand remains weak and may need further stimulation. The backdrop of increases in unemployment and becalmed wage growth is weighing on demand. The temporary increase to the nil rate band of Land Transaction Tax for residential property transactions in Wales, whilst lower than over the border, should help boost the housing market which would have positive benefits for certain retail categories such as furniture, home furnishings and household appliances.

Both Welsh Government and councils ought to be ready to act if necessary to take further temporary measures to support consumer confidence and spending. Potential interventions could include reductions in the Welsh Rate of Income Tax, or direct cash payments to lower



income households, and – as outlined earlier – the scrapping of parking charges to boost footfall. We note that Malta and Jersey have provided its citizens with a retail voucher to spend in shops to aid the economic recovery, and something similar could be investigated here.

The Welsh and UK governments, and councils, could use their advertising spend to do more to encourage people to visit town and city centres. MSs should keep down costs on consumers at this time of economic fragility, and stick to the approach of recent budgets which have sought to protect workers on low or modest earnings from higher income tax rates.

Skills for the future

As the changing jobs market will mean many employees need to retrain, it is essential that government support provides the right vehicle to enable this to take place effectively. This is particularly urgent given the transformation and upheaval that the industry has faced this year and will continue to face.

Retailers in Wales are estimated to contribute over £6million a year towards the Apprenticeship Levy, for which it remains somewhat unclear what they get in return, with many viewing it as simply another cumulative cost burden. We maintain that a clearly ringfenced fund for levy payers is made available to enable them to spend the funding on their areas of skills priority.

We ask that the Welsh Government look again at the number of all age level 2 apprenticeships for the retail industry to ensure that these are not capped or reduced. These apprenticeships are vital gateway opportunities into a career which offers real prospect for progression, with strong reward.

In terms of the apprenticeships on offer we would ask for greater flexibility; both in terms of the time taken for 'off the job training', which substantially increases costs due to the need to backfill roles, and in terms of preparing colleagues for future jobs, providing an opportunity to move to a position of helping colleagues onto their next role or a role that might exist in a few years.

While apprenticeships are a valuable form of in-work training, they are not the only form of in-work training retailers deliver or would like to deliver. Eight in ten of retailers pointed to greater flexibility to spend levy funds on non-apprenticeship training as a necessary reform to enable them to meet their training needs.

Tax Free Shopping

The UK Government's decision to scrap the VAT Retail Export Scheme (commonly known as 'Tax Free Shopping') is deeply concerning. The scheme encourages international visitors to Wales to spend money on our high streets. The decision will leave the UK from 1 January as the only European nation not providing tax free shopping scheme to encourage tourism and help shops. MSs and Welsh Ministers should ask their UK counterparts to rethink the decision.



Moratorium on new regulation

A one-year pause on new public policy measures which are not related to protecting customers and retail workers from Covid19 should be introduced. Thereafter, new regulations should be stress-tested for proportionality through a retail enabling plan.

Welsh Government Tax Policy Work Plan

In addressing the plan for 2020-21 we welcome the Welsh Government's principles by which Welsh taxes should be underpinned, but we would ask that the importance of remaining competitive should be clearly stated and included within these principles.

In addition to our calls for a fairer system of Non-Domestic Rates, and for the Welsh Rate of Income Tax to, at the very least, be kept at the current level, we would also ask that any new taxes are considered in light of the current pressures on both business and consumer. Any new tax must not prohibit business from being competitive or putting Welsh businesses at a disadvantage alongside a porous Wales-England border.

The Welsh Government intends to consider the case for developing new environmental taxes for Wales, working where appropriate with the UK government. We welcome the engagement and approach taken in Wales on these issues to date and would request that close dialogue is maintained over the forthcoming period. Retailers have a strong track record of action on climate change. This month saw the publication of the retail industry's new Climate Action Roadmap and the ambition to achieve net zero by 2040. The roadmap contains guidance and support to assist the retail industry to decarbonise stores by 2030, deliveries by 2035 and products by 2040, working in tandem with government and suppliers, while helping customers and employees to live low-carbon lifestyles. We would welcome the opportunity to continue working with the Welsh Government on how we can help build a fairer, more sustainable economy.

We remained unconvinced that a Vacant Land Tax would deliver on the benefits that may be hoped for given the challenges that will undoubtedly arise from definition of vacant land and how the value of land will be calculated. Should this option be pursued we would recommend looking at international experience, in particular in Ireland.

We would ask that the Welsh Government considers extending the temporary increase to the nil rate band of Land Transaction Tax (LTT) for residential property transactions in Wales from April 2021. In addition to the burden felt by the business rates pressure our members have also highlighted concern over Land Transaction Tax, given that this is higher in Wales than over the border at 6% for commercial properties over £1million as opposed to 5% in England. This again impacts on investment decisions for our members and should be considered carefully as part of a future tax roadmap.