

OPEN FOR BUSINESS:

GROWING A MORE PRODUCTIVE AND COMPETITIVE WELSH ECONOMY

RETAIL INDUSTRY RECOMMENDATIONS TO THE WELSH GOVERNMENT
FOR ITS BUDGET & SPENDING REVIEW 2017-18





MAKING A POSITIVE DIFFERENCE
TO THE RETAIL INDUSTRY AND
THE CUSTOMERS IT SERVES

ECONOMIC

RETAIL
CONTRIBUTES

6%

OF WELSH GVA



21%

IN WALES RETAIL ACCOUNTS
FOR OVER A FIFTH OF
ALL BUSINESS RATES



INDUSTRY

OPEN

13,170

RETAIL OUTLETS
IN WALES, 2015

9%

OF WELSH
BUSINESSES
ARE RETAILERS.

8,265

CURRENT TOTAL

ACROSS THE UK
RETAIL PAYS

£32_{BN}

TAX PER
YEAR



EMPLOYMENT

135,897
RETAIL JOBS
IN WALES



RETAIL



IS THE LARGEST
PRIVATE SECTOR EMPLOYER
IN WALES

RETAILERS INVEST

£1,130



IN TRAINING
EACH EMPLOYEE

CONSUMERS

**WELSH
CONSUMERS**

PAY
2.4%
LESS

FOR THEIR BASKET
THAN THE UK AVERAGE

2.5
MILLION

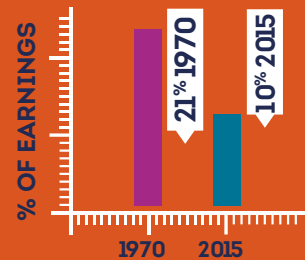
CONSUMERS
IN WALES



11
MILLION

TRANSACTIONS
PER WEEK

THE WEEKLY FOOD SHOP



EXECUTIVE SUMMARY

Retail is an industry undergoing enormous structural change during a sustained period of weak demand. In that context, expanding government-imposed costs have become an acute issue. The industry was already contending with this challenging backdrop prior to the vote in favour of Britain leaving the European Union.

In light of the Brexit vote there is now an even greater need for the Welsh Government and Assembly as a whole to look afresh at the increased burdens facing retailers and consumers, and take steps to support the industry and promote future growth.

We look forward to engaging with the Welsh Government and the National Assembly for Wales in the fifth term. To ensure that Wales remains open for business and competitive we would urge elected members and decision makers to engage with the largest private sector employer in Wales, the retail industry, to support decisions which will provide investment and long term economic growth for communities across Wales.

Specifically, Welsh Ministers should:

- Work with the industry to deliver a retail strategy which sets out a clear road-map for future tax and regulatory changes for the decade ahead
- Press ahead with fundamental reform of business rates so that a modernised, sustainable, strategically coherent and competitive rates system can be in place
- Ensure firms in Wales which pay the Apprenticeship Levy directly benefit from it
- Bolster consumer confidence by keeping a firm grip on personal tax rates once the current Draft Wales Bill is enacted and income tax powers have been drawn down
- Shelve any proposals for a deposit return scheme for drinks containers which would push up prices for consumers

RECOMMENDATIONS

The WRC wants to see a bold and ambitious Budget which uses the flexibilities provided to achieve the competitiveness goal. Our recommendations are:

BREXIT

Retailers and Wales as a whole benefit from an open, outward looking liberal approach to trade. We would encourage both the UK and Welsh administrations in early course to draw up an inventory of those existing EU regulatory powers which will be repatriated to the UK parliament and National Assembly for Wales and outline the likely approach which will be taken.

The Welsh Government ought to build on its positive message of early engagement with business with tangible action. Retailers were already facing a challenging landscape before the Brexit result. The Welsh Government must look closely at the increased burdens facing retailers, and take steps to support the industry and promote growth.

Top of the agenda should be to work with the sector to deliver an industry strategy which sets out a clear road-map for future tax and regulatory changes. Ministers should press ahead with fundamental reform of business rates and ensure firms paying the Apprenticeship Levy directly benefit from it. Ministers should aid consumer confidence by keeping a firm grip on personal tax rates and by removing any consideration for a Wales-only deposit return scheme for drinks containers.

RETAIL INDUSTRY STRATEGY

The WRC has a shared interest with the Welsh Government in improving the conditions for the industry to thrive and succeed through a competitive, open and attractive business environment. There is a pressing need for a more coherent approach, one where industry and the government as a whole work together and endorse a joint retail strategy which supports and nurtures the growth and success of retail to help it fulfil its potential over the next 10 years. At the very least there ought to be a clear road-map setting out the intended regulatory and tax changes that are likely to impact on the industry over the decade ahead. An industry strategy or road-map could benefit not only retail but its supply chain and the other sectors it touches such as tourism. This strategy needs to be about more than structured and effective dialogue, and ought to become a benchmark against which each proposal for policy and regulation can be tested.

Retail is increasingly being seen as an important sector for stimulating commercial investment and achieving more sustainable and inclusive economic growth. This has been recognised in recent years through the UK Government's BIS Retail Strategy and UKTI International Action Plan, and also at a European level through the Commission's Retail Action Plan. The WRC is ready to work with the Welsh Government to develop a joint industry/government retail strategy or retail road-map.

BUSINESS RATES

As highlighted previously, retailers are keen to see fundamental reform of Wales's annual business rates system in order to support investment, business growth and revive our high streets where 1 out of every 8 premises is vacant. We are pleased that the Welsh Government considered the business rates system during the fourth Assembly under Chris Sutton's stewardship. Now that business rates are fully devolved to Wales we ask that these recommendations be looked at once more and that the WRC is involved in how any fundamental reform can be implemented given that the retail industry in Wales pays 21% of all business rates revenue.

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A reformed rates system which flexes with economic and trading conditions and leads to a substantially lower tax burden would increase retailers' confidence about investing in new and refurbished shop premises and help revive high streets and town centres. At the heart of this agenda should be a short to medium-term plan to substantially lower the rates burden. In the medium to long term we need to see a creative approach to radical reform. Business rates are an anachronistic and outdated system for the current digital age, which disproportionately affect bricks and mortar stores which typically contribute directly to their local area via employment and community-based initiatives.

INCOME TAX: DRAFT WALES BILL

The retail industry takes a great interest in personal taxation issues because of the potential impact on customers' disposable incomes and discretionary spending, the potential impact on employees and on retailers' administrative systems, and because of the potential knock on implications for other taxes.

The WRC has concerns over the shifting balance in the burden of taxation between personal and business taxpayers over recent years, with business rates escalating in stark contrast to council tax for example. We would be concerned if a similar approach was adopted more widely in the context of personal taxes if it led to business taxes on firms having to pick up an even greater burden of taxation.

Shoppers remain cautious and retail sales remain lacklustre. We would therefore caution against changes in the tax rate or bands which might cast a cloud over what is likely to remain a tentative recovery in consumer confidence, for example if the aim is to achieve a substantial increase in the tax yield.

Wales is an attractive place to live and work and in order for it to remain so we would urge Ministers, once the powers are drawn down and in place to do so, to think twice about any moves which would lead to those working in Wales having to pay higher taxes than elsewhere in the UK, as this could affect the ability of retailers to retain or attract talent - either on a permanent or temporary basis - especially when compared to other parts of the UK¹.

The amount consumers have to spend is of course influenced by a wide range of factors including the cost of living which can be affected by broader public policy decisions². Retailers can and do play their part in keeping down the cost of living for families³.

The WRC believes Wales's prospects can be enhanced further by using future powers over income tax to positively support the economy and consumer spending. The best outcome for retailers, households and the economy is for income tax rates for the vast majority of the Welsh public to be at least as competitive as they are over the border.

APPRENTICESHIP LEVY

There is still a dearth of information and clarity over many aspects of the UK Government's new Apprenticeship Levy, not least how it might apply in Wales. This is particularly concerning given that there is less than a year before implementation. Indeed, we feel in light of Brexit there is a strong case for pausing its implementation at UK level. We would urge Welsh Government to press the case with counterparts in Westminster to rethink the levy, or at the very least pause its implementation.

1 The cost of employing people includes employers' NICs and has risen lately due to the introduction of pensions auto-enrolment and changes to the NMW.
2 For example over housing supply, transport costs and duties and charges (e.g. charges for water and sewerage, carrier bags, deposit return schemes for drinks containers etc).
3 Retailers are responding to the squeeze on household budgets and strong industry-wide competition with keen prices and promotions, helping to keep down the cost of living. Shop prices have fallen for 3 years, with food inflation near its lowest recorded level.

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Retailers have a strong record on training and career progression, with many providing a wide range of apprenticeships in diverse areas such as logistics, warehousing and food preparation alongside many other accredited or job related qualifications.

It is important that employers are not only able to access the funds for their broader skills needs but are at the heart of designing how the funds from the levy will be utilised in Wales to aid productivity and growth. We are concerned that there are currently no plans to formally hold a consultation process with stakeholders over the implementation of the levy as is the case in Scotland and would suggest that this approach should be considered.

FEES, CHARGES AND LEVIES

The Welsh Government, its agencies, and Welsh local authorities determine or are highly influential in the setting of a number of fees, charges and levies which are or can be applicable to retailers. These include planning application fees, Business Improvement District levies, water and sewerage charges, fees for building warrants and the Carrier Bag Charge. The WRC is keen to see effective, well-resourced and consistent regulatory services, underpinned by a clear rationale for variations in charges with commensurate improvements in services and based on timely dialogue with the industry.

DEPOSIT RETURN SCHEME

Welsh retail is amongst the most climate-conscious industries and retailers have taken a lead in reducing the environmental impacts of both their own direct operations and supporting improvements right along their supply chain. The WRC has previously outlined its support for a more harmonised local authority recycling scheme and we fully support the efforts being made by Welsh Government in this regard. We remain firmly opposed to the mooted Wales-wide deposit return scheme for drinks and other containers.

Such a nation-wide deposit scheme would disproportionately penalise the disadvantaged consumer by pushing up prices, undermine existing kerbside recycling, increase carbon emissions through extra consumer journeys and retailer haulage operations and place significant costs on business. Reducing trading space in shops on our high streets is incongruous with the Welsh Government's ambitions to revitalise town centres. The cost to business of any introduction of such a scheme fails to take into account several other cost factors including the loss of trading space, costs of storage, associated installation infrastructure, and staff training.

REGULATION

With a significant number of retailers operating on a national and international stage the ease and cost of doing business is a major factor in their decisions of where to invest. Important steps have been taken in recent years including the development of Primary Authority which will guarantee greater regulatory consistency across the 22 local authorities in Wales. We are keen to ensure future regulations take full account of the dramatic structural change occurring in industries like retail and we would welcome the opportunity for further discussion with our industry in ensuring that regulation does not place unnecessary burden on retailers given the current flux facing the industry.

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INFRASTRUCTURE

Transport is vital to the success of the retail industry. With outlets located in most cities and towns, retailers rely on access to good quality and reliable transport for the daily operation of their businesses – for ease of access for customers, to deliver goods, and to enable employees to reach the workplace.

Rail is increasingly used to distribute freight for retailers around the country, and changes in customer demand and how people shop is putting a premium on having effective high speed broadband. As a result, any windfall 'consequential' received from UK Budgets should be used for GDP-enhancing infrastructure projects or town centre regeneration which benefit the business environment.

LAND TRANSACTION TAX

Due to the nature and scalability of the industry many retailers have a choice over where to buy, rent or invest in retail premises and warehouses in the UK. With the Land Transaction Tax replacing Stamp Duty Land Tax in Wales from April 2018 the rates, bands and thresholds for Land Transaction Tax must ensure Wales's taxes on purchases of commercial property are competitive.

CONCLUSION

Retail is an industry undergoing enormous structural change during a sustained period of weak demand, and growing government-imposed costs have become an acute issue. We believe this Budget & Spending Review provides an excellent opportunity to better support our industry's potential, enabling it to grow and flourish whilst supporting investment and employment opportunities throughout Welsh communities. We are very much open to further dialogue on how this can be better realised.

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"WE BELIEVE THIS BUDGET & SPENDING REVIEW PROVIDES AN EXCELLENT OPPORTUNITY TO BETTER SUPPORT OUR INDUSTRY'S POTENTIAL, ENABLING IT TO GROW AND FLOURISH WHILST SUPPORTING INVESTMENT AND EMPLOYMENT OPPORTUNITIES THROUGHOUT WELSH COMMUNITIES."

ABOUT THE WRC

Retail is an exciting, diverse and dynamic industry undergoing transformational change. The WRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the retail industry and to the customers it serves.

Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture. The WRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry's success – our 3Cs.

In addition to publishing leading bell-weather indicators on Welsh footfall and shop vacancies in town centres, our policy positions are informed by our 255-strong membership and determined by the WRC's Board.



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