BABERGH DISTRICT COUNCIL

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| **From: Head of Economy** | **Report Number: P71** |
| **To: Strategy Committee** | **Date of meeting: 20 November 2014** |

## NOTICE OF MOTION – SUPERMARKET LEVY

### 1. Purpose of Report

1.1 At the September Council meeting Councillor Robert Lindsay proposed the following motion:-

"That a letter be sent to the Secretary of State for Communities and Local Government requesting that local authorities be given the power to introduce a levy of up to 8.5% of the rateable value on supermarkets or large retail outlets in their area with a rateable annual value not less than £500,000 and for the revenue to be retained by local authorities in order to be used to help improve their local communities."

1.2 The Council referred the Notice of Motion to the Strategy Committee for consideration and report, in accordance with Council Procedure Rule No 17.3. The Corporate Manager – Economic Development and Tourism has sought independent advice on this matter, commissioning an impartial report (attached as Appendix A to this report) to assist Members in making their decision. The brief to the Consultant (Robert Delafield of Waterfront Developments Ltd) was

To provide an objective assessment balancing the likely benefits with the anticipated direct and indirect consequences of the levy.

### 2. Recommendations

2.1 That the Strategy Committee considers the Motion proposed by Councillor Robert Lindsay as set out in paragraph 1.1 above.

2.2 That the Strategy Committee notes the contents of the independent report attached as Appendix A.

The Committee is able to resolve this matter.

### 3. Financial Implications

3.1 None directly associated with the motion itself, although there are financial implications, should the legislation be enabled, which are set out in the paper.

### 4. Risk Management

4.1 As this is not part of the strategic plan or delivery programme, the risks will be assessed depending on the outcome of Members' consideration.

### 5. Consultations

5.1 None required at this stage but should subsequent support be given to introduce a levy, there will have to be a statutory consultation.

## 6. Equality Analysis

6.1 N/A

## 7. Shared Service / Partnership Implications

7.1 This is a Babergh Motion only although the report includes figures for Mid Suffolk.

## 8. Key Information

8.1 If successful, the motion mandates the Council to write to the Secretary of State to seek permission under the Sustainable Communities Act to impart a levy as described in paragraph 1.1 above.

8.2 The report provides Members with information pertinent to the Motion in order to make an informed decision.

8.3 The Dept of Communities and Local Government (DCLG) is responsible for setting the overall government policy on local taxation.

8.4 The Valuation Office Agency prepares local rating lists containing rateable values for all non-domestic property. The rateable value (RV) represents the annual rent the property could let on the open market in 2008. The next business rates revaluation will now take place on 1st April 2015 and take effect from 2017.

8.5 The Sustainable Communities Act 2007 allows local authorities the ability to raise additional revenue to "improve local communities in their area by promoting local economic activity, local services and facilities, social and community well- being and environmental protection".

8.6 Derby City Council, supported by the charity/pressure group Local Works, has submitted a proposal under the Act, highlighting its assessment of the impact of large supermarkets and how additional revenue from a levy could be put back into the community.

8.7 The DCLG has rejected the idea of a levy and remains opposed saying "imposing new additional taxes on supermarkets will push up prices on food and the cost of living hitting low income families the hardest".

## 9. Appendices

| | Title | Location |
|---|---|---|
| A | Independent report by Consultant Robert Delafield of Waterfront Developments. | Attached |

## 10. Background Documents

10.1 None

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# Supermarket Levy

**Proposal:** That a letter be send to the Secretary of State for Communities and Local Government requesting that local authorities are given the power to introduce a levy of up to 8.5% of the rateable value on supermarkets and large retail outlets in their area with a rateable value not less than £500,000, and for the revenue to be retained by local authorities in order to be used to help improve their local communities.

## Executive Summary

- A levy has the potential to raise £583,100 and £177,225 additional revenue each year for BDC and MSDC respectively.
- Whilst this may look attractive, and allow a number of community projects to come forward, it is not without a range of direct and indirect costs, and potential consequences.
- An annual levy, via the Sustainable Communities Act, is likely to be seen as "opportunistic and anti-business", particularly if this is more than a one off "windfall" payment, (more commonly associated with S106 Agreement contributions or the Community Infrastructure Levy).
- Profit margins of operators are being squeezed through competitive pricing, with the public benefiting from consistent low food prices. Any fixed cost increase would have an impact on both food prices in the store and suppliers. Government objections to the levy are that this would hit low income families the hardest.
- A levy is poorly timed because the growth of superstores has now stopped, and fundamental changes have occurred in the way the public now carry out their convenience shopping (on-line, "click and collect" and convenience shops on the high street).
- With no uniformity across local authorities the market will be distorted and this could impact upon investment decisions, in the medium term.
- Town centres will not necessarily benefit from a levy on a supermarket nearby given local authority boundaries (e.g. Tesco Copdock and Ipswich town centre).
- In 2015 a new valuation will mean that rateable values are likely to increase substantially from 2017. This may mean that significant additional revenue can be budgeted for in any case, however given the size of increases talked about this will result in food price inflation. The prospect for direct Govt. involvement here, given the impact on the cost of living, must be high.
- With an election also in 2015 a "wait and see" approach, already adopted by a number of Councils elsewhere, is the most prudent course of action.

**Brief:** To provide an objective assessment balancing the likely benefits with the anticipated direct and indirect consequences of the levy.

## Context:

The Dept. of Communities and Local Government (DCLG) is responsible for setting the overall government policy on local taxation.

The Valuation Office Agency prepares local rating lists containing rateable values for all non-domestic property. The rateable value (RV) represents the annual rent the property could let on the open market in 2008.The next business rates revaluation will now take place on 1st April 2015 and take effect from 2017.

The Sustainable Communities Act 2007 allows local authorities the ability to raise additional revenue to "improve local communities in their area by promoting local economic activity, local services and facilities, social and community well- being and environmental protection".

The DCLG has rejected the idea of a levy and remains opposed saying "imposing new additional taxes on supermarkets will push up prices on food and the cost of living hitting low income families the hardest".

Derby City Council, supported by the charity/pressure group Local Works, have submitted a proposal under the Act, highlighting their assessment of the impact of large supermarkets and how additional revenue from a levy could be put back into the community.

**Assumptions:**

A £500,000 RV "test" will affect stores in more affluent areas where the open market values are higher but also all supermarkets with a gross internal area approximately greater than 2322sqm (25,000sqft),irrespective of whether they are out of town, edge of town or town centre.

Retailers such as John Lewis, Marks and Spencer's, B&Q and Toys R Us are also likely to be included, because it would seem unfair only to target these larger supermarkets.

Babergh District Council has 5 supermarkets over RV £500k with an existing total liability of £3,306,520 and Mid Suffolk has 3 supermarkets over RV£500k, with a total liability of £1,004,970 including Tesco at Sudbury, Stowmarket and Copdock, Sainsbury's at Sudbury, Wm Morrison at Hadleigh, Asda at Stowmarket etc.

The proposed levy is an additional charge over and above the current business liability. Applying 8.5% to the RV (and not actual rates liability) BDC would receive an additional £583,100 and MSDC an additional £177,225, a total net figure of £760,325. Supermarkets rates collected are £1,004,970 in MSDC and £3,306,520 in BDC, totalling £4,311,490. (Source: Andrew. Wilcox@ipswich.gov.uk).

**The Case For**

- Any additional revenue source for local authorities would be welcomed and help pump-prime a range of community benefits.
- A levy would seek to address perceived imbalances in the rating system. This is because rates paid by large supermarkets are generally a smaller % of sales turnover. The impact of rates on smaller business is therefore greater. This was an argument put forward and accepted in Northern Ireland in 2012, where operators were told that this was a temporary measure to assist smaller businesses through the recession.
- Local Works say that there is "overwhelming evidence that large retail outlets have a net detrimental impact on the sustainability of local communities". A levy can therefore help to "undo the damage caused by large supermarkets" and help "level out the playing field which is skewed in favour of supermarkets over independent local shops". This evidence is presented to show" a relentless rise in large supermarkets", challenges the ideas that supermarkets are efficient operators, questions the number of jobs delivered against promises made, that often there is a negative impact on the local economy, that environmental impact occurs, companies are "profit hungry", food waste and poor working practises are prevalent .
- A levy is affordable and would have little or no impact on underlying profitability of the operators.

**The Case Against**

- This sends the wrong message to businesses, effectively a new tax on large stores and their efficiency, investment and underlying profitability. Large businesses are not immune from increased costs and as ex Iceland boss Bill Grimsey said "the regeneration of town centres will not be achieved by clobbering big business".
- Fundamental structural changes in the food sector are occurring, profit margins have reduced significantly and the growth of large supermarkets and retailers out of town is over. Additional cost will therefore either be passed on to suppliers, or to the general public in terms of higher food prices, particularly in the medium term.
- Rates are potentially set to rise dramatically following the 2015 re-valuation with new charges in place in 2017. The "Big Four" supermarkets are among a group of 100 companies that wrote an open letter calling for business rates to be overhauled, saying that this controversial tax is a "critical problem".

- The public are used to choice, competition and relatively cheap everyday food prices. A levy is likely to be unpopular if passed on to customers in higher prices, particularly if the benefits are less tangible. This will hit those less well able to afford extra costs.
- A levy in one local authority could result in a flow of investment and jobs out of the area to a location nearby, which has no additional charge. Out of town supermarkets may have a perceived negative impact on a nearby town centre in a different local authority.
- Large superstores and supermarkets are part and parcel of everyday life and are here to stay. There is evidence to counter all of the negative criticism levelled at how supermarkets impact on communities, one example is the beneficial impact of "claw back" where stores in market towns have stemmed the outward flow of income, created new jobs and generated linked trips within the community in a sustainable way.

**Existing Market & Future Trends**

1. The UK grocery market is worth £174.5bn (to April 2014) with 54.5p in every £1 of UK retail spending.
2. 42% of sales is from superstores and supermarkets (defined as being over 2,322sqm/25,000sqft net), 20% is from smaller supermarkets, 21% from convenience stores 6% from discounters, 4% on line and 7% from other retailers (newsagents, garages, butchers/bakers etc.).
3. By 2019 on-line sales of grocers are expected to grow from 7.7bn to 16.9bn, whilst superstores and supermarkets will see failing year on year percentage growth to 35%, down from 42%. (Source : IGD UK Grocery Market Forecast 2014-19)
4. Market share derived from large supermarkets of the "Big Four (Asda, Tesco, J Sainsbury and W.Morrison) has contracted since 2011 and is forecasted to be 34.9% by 2019, down from 42%.
5. The opening of small convenience stores in high street locations by all of these main operators, and others (including Waitrose, Marks and Spencer's, Co-op etc.) has exacerbated changes in shopping habits. According to property agents CBRE there has been a "startling increase" in convenience store numbers over the past decade, with the Big Four trebling the number of stores since 1996.
6. Tesco (Express) and Sainsbury's (Local) have followed "town-centre"- first planning guidelines and invested heavily into the small format stores, in tandem with on-line grocery sales. Wm. Morrison is currently involved in a major expansion of M-stores.
7. Aldi and Lidl have trebled in size since 1998, with customers taking advantage of discounted goods and increasing purchasing comparison items at the same time as every day convenience shopping. Poundland, Iceland and 99p Shops now have a significant presence on the high street having expanded during the recession.
8. On line grocery sales are booming. Asda expect 75% of its customers to shop on line. Grocery "drive- thru click and collect, on line "easy food options" aimed at commuters, home delivery and public transport hub pick up points are all changing the way shoppers source groceries and increasingly clothing, furniture and white goods.
9. The Big Four are major employers, Morrisons for example has 125,000 staff and the average superstore is likely to employ 250 full and part time employees. Asda created 5,000 new jobs in 2012 alone and employs 180,000 in stores and depots throughout the UK.
10. The Government has recently confirmed that UK's property will be revalued on 1st April 2015, with new payments taking effect from 2017. Currently business rates are based upon the value of property in 2008. Analysis by Paul-Turner-Mitchell, an independent business rates expert, warns that supermarkets would see their rates liability grow by 40%. This will see business rates increase to £1.88bn, up on £1.33bn for 2014.

**What would be the implications of a levy on the following?**

*Revenue*- as indicated above there is the potential of an annual levy receipt of £760,375 shared between BDC and MSDC, assuming the Secretary of State agreed to the recommendation. This would give the Council under the Act unfettered ability to spend additional money on a wide range of community programmes.

There is no requirement to specifically address the high street or ameliorate any negative impact of one particular store, since a wide range of social and environmental projects may be preferred. Some might suggest therefore that this is a tax on large retailers, including superstores and supermarkets, dressed up under the guise of "saving the high street" with significant direct and indirect costs. Others may see it as an easy "windfall" creating an additional revenue source, to help expand local services and community projects.

*Profits-* Tesco and Wm. Morrison have both been highlighted in the press recently as "struggling" retailers with significant reduced profits margins as customers turn away from large out of town outlets to on-line purchases and smaller convenience stores. As an example of this is Morrison's 12% profit slump and Tesco's operating profit margin, which traditionally is in excess of 6% and is now only 4.1%.

Whilst trading profits are still very substantial, Tesco (£2,191(£m) and sales of £43,570(£m), the outlook is less certain. All of the listed operators are re-building their relationship with customers by reducing prices. Similarly there is pressure from investors in terms of dividends, returning capital by selling freehold sites and non-core businesses, so that new challenges are met.

An unplanned additional 8.5% levy is a direct cost and will have a negative impact on the bottom line profit margins. The additional levy would represent a liability increase of 17.6% in rates for BDC and MSDC's large supermarkets and retailers.

The traditional response in the past has been to seek "savings" from suppliers and manufacturers. These tactics are possible because of the retail oligopoly, brand loyalty and economies of scale enjoyed by all operators. This however is not sustainable in the medium term (1-3 years) and inevitably additional costs will be passed on to customers.

Whilst potentially this could result in goods being offered by the same retailers at different price points depending upon where they are located, it is more likely that food will simply become more expensive as fixed costs increase.

Although smaller supermarkets without additional levy costs could potentially offer goods effectively at a discount, the pace of structural changes referred to the above in terms of size of store and methodology of shopping suggests this will not occur. All operators try to offer the same basket of goods at the same price, engendering brand loyalty and faith in their product. The smaller store do not have the same economies of scale as the larger superstores so to retain profit margins prices will have to increase across the whole sector to offset these costs. The inevitable conclusion of higher prices is an increase in the cost of living which will hit low income families.

*Jobs-* although new significant numbers of new jobs have been created by supermarkets a long term decline has occurred over the years in the number of people employed in the retail sector. This in part is due to the structural changes which have occurred in our society over the last 30 years in terms of how we shop, but also because of the economies of scale and control of the supplied side which ultimately undermines independent retailers' ability to compete. (Source: Advisory Committee for Consumer Products and the Environment 2005).If margins become squeezed, as a result of an additional tax levy (and in anticipation of a major increase in rates in 2017) then labour will be replaced by capital, resulting in fewer staff and greater self- service check out, more resources spent encouraging "click and collect" etc. This will in the medium term (2-3 years) reduce job numbers.

*Supply lines-*the impact of a levy on the supply chain also brings with it unintended consequences to independent retailers, who already have a narrow supply base. The 2006 Defra Study noted that if further pressure is put on suppliers to sell at low prices to supermarkets, this will lead to suppliers forced to charge higher prices to independent retailers. A new levy (and 2015 rate re-valuation) is likely to result in supermarkets using their buying power to undermine the viability of the wholesale distribution network serving independent stores. As a result further job losses are likely to occur.

Whilst this may seem an obvious case of anti-competitive practise, and potentially against the public interest, it remains to be seen if 2010 Code of Practise will ever be enforced.

*Investment*- in the event that one local authority opts to levy supermarkets and large retailers and another adjoining Council decides that this is anti- business or inappropriate for other reasons, then clearly the “playing field” will not be level. Capital investment occurs in attractive locations and fiscal incentives, along with grant finance and infrastructure investment, make a difference. In the short term (1-2 years) a levy applied without consistency across the region will “send a message” to businesses and this could make a difference in determining where to locate.  In the longer term the levy would be regarded as an additional cost and result in lower land prices paid for by developers and end users, much like the Community Infrastructure Levy (CIL).

However in terms of MSDC and BDC with 3 and 5 supermarkets respectfully already trading in the area I am not aware of any large store requirement.  The introduction of a levy in my opinion will make little or no difference to specific new investment decisions.

Local authorities can already affect investment decisions, and in particular help independent shops, without the need for a levy. Examples of Councils offering targeted business rate discounts and taking action to curb over- zealous car parking practices are often cited as being small but important steps to help. The National Planning Policy Framework requires a town centre first sequential assessment, together with a retail impact assessment so that no significant negative impact occurs. A more relaxed planning use classification allows secondary shops to be converted more easily back to business or residential use. The Localism Act should also allow a more responsive focussed approach to apply to specific communities in need.

**Summary**

The proposed levy if applied across the UK would, according to Local Works, raise £400m. Various campaigners who are “anti-supermarkets” have identified the Sustainable Communities Act as being an appropriate piece of legislation to help re-invigorate town centres. A number of local authorities, led by Derby City Council support this.

Elsewhere local authorities such as Bristol City Council and Gloucester City Council have debated the levy proposals where large retailers (and not just supermarkets) make up a significant proportion of rates contributors. They decided that this will penalise large successful businesses by increasing costs, noting that they are already under pressure, due to smaller store competition and on-line sales. They also felt that the Act needed time to bed down, and since approval is needed by the Secretary of State (and the Government is not supporting the idea due to the impact on food prices), it would be sensible to bring forward other initiatives to help improve city centres.

The British Retail Consortium called the levy a “random tax”, with big questions over how any money might be spent. It is worth adding however that post-recession vacancy rates across the UK in the high street are still relatively high (average 14.5%), with conversion to other uses taking time.

The question of food prices and “value” remains the top concern for shoppers, having learned how to make their money stretch further during tough times by shopping around, making lists to minimise food waste and “savvy shopping” looks certain to continue.

As a result the Big Four has stopped developing and acquiring large superstores out of town and the majority of new and committed stores are 5,000sqft- 20,000sqft gross convenience stores located as close to the high street as possible. The operators have identified 3 channels which will see fast growth, namely on-line, discount and convenience (little and often).

The levy if applied to MSDC and BDC would not in my opinion have any short term impact on investment and jobs. However in the medium term significant investment and employment issues will need to be addressed in the food sector due to increasing costs. A levy will not help, and taken with the proposed increases in rates from 2017, could result in decisions taken to dis-invest, reduce the size of trading in larger stores and cut staff numbers.

A levy, when taken alongside the new re-valuation of all stores in 2015, will result in higher food prices and have a negative impact on suppliers, supply lines and ultimately independents. The effect of a levy will also be to accelerate the growth of the smaller store formats throughout the high street which are “cannibalising” larger stores. The levy could have the opposite intended impact because by allowing increased choice and competition on the high street, given higher supply costs, this will harm independents.

The only justification of charging a levy now would be as a temporary measure for a short 1-2 year period. This would follow the example set in Northern Ireland. It is noted however that with their economy now growing again there are no signs of this levy being withdrawn, the charge of Justin King (ex. Sainsbury’s MD) that this is an “unfair tax on big employers” does somewhat ring true.

**Report prepared by:**

Bob Delafield is a retail property consultant and MD of Waterfront Developments Ltd. Trained as a chartered surveyor he has 35 years of property experience, working in private, public and institutional sectors of the property market.

In the recent past Waterfront has acted for land owners, investors, retail operators and local authorities.

In the last two years Waterfront has delivered planning consents and various end users on 8 schemes throughout East Anglia for supermarkets. Included here are schemes at Attleborough, Taverham, North Walsham, Holt, Norwich and Blofield in Norfolk, Halstead, and Colchester in Essex.

Waterfront also acts for retailers including Asda (Clacton, Harwich and Tiptree), Wm. Morrison and Co-op.

Previous work on behalf of Mid Suffolk DC included proposals to help regenerate Ipswich Street, Stowmarket.