21st Century Retail Policy

Policy Exchange

Quality, choice, experience and convenience

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About the Author

Alex Morton is the Head of Housing, Planning and Urban Policy at Policy Exchange. Prior to this he was Secretary to the Conservative Party's Globalisation and Global Poverty Policy Group under the Rt Hon Peter Lilley MP and worked in the Civil Service Graduate Fast Stream.

He is the author of the 2010 report *Making Housing Affordable*, which won the Prospect's magazine's Think Tank Publication of the Year. Its central proposition was that house price stability should be a major government priority and would have major benefits. He has written a series of reports since arguing for a more flexible planning system that empowers local people over planning bureaucracy and for sale of vacant and expensive social housing to fund a programme of more social homes. Many of the proposals his work has set out have made it into government policy, including easier conversion of offices and shops to homes, making it easier to build bungalows for an ageing population, local referenda on planning decision and better use of social housing assets.

Dr. Gerard Dericks is a consultant and scholar with specialisation in real estate economics. He holds a PhD and MSc from the London School of Economics and a BA from Ritsumeikan University.

Published by

Policy Exchange, Clutha House, 10 Storey's Gate, London SW1P 3AY

www.policyexchange.org.uk

ISBN: 978-1-907689-58-1

Printed by Heron, Dawson and Sawyer

Designed by Soapbox, www.soapbox.co.uk

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Introduction

The retail industry is in the midst of great change. The internet is accelerating a fundamental shift toward retail as leisure. Yet current retail policy ignores this great shift, disregards economics and makes unfounded assumptions about social behaviour. This means a weaker economy, damaged social fabric and the blight of boarded-up stores. Nostalgia is perhaps understandable. Yet nostalgia undermines our quality of life, and halts realistic discussions about the future. Retail policy needs to move into the 21st century.

In just six years, online retail has nearly quadrupled as a share of retail spending, and it continues to rise. This shift is not simply about a move online, but a change in the nature of shopping. No longer is there a need to pick something up from the shops; Amazon can deliver it. A trip to the shops is increasingly about a positive broader experience and the retail destinations that are succeeding offer it. We need to embrace this change, not ignore it. Other than a few well-placed convenience sites, the retail centres that are flourishing are larger and offer a wide range of stores and amenities, from restaurants to parking and lavatories. The idea of the traditional housewife forced into making multiple trips on foot to a small local high street is ever more out of date. Attempts to base the future of retail on this model grow more difficult to justify, and damage both social ties and economic productivity. Current retail policy often harks back to a 1940s vision of a top-down economy. It gives local councils major powers over high streets, which some fail to use wisely. This is allied to a Town Centre First policy that blocks out-of-town retailing, stifling choice and competition.

While business rates have risen rapidly recently, the root cause of high streets' difficulties are wider shifts in shopping trends. Temporarily freezing rates, as this report advocates, cannot solve the issue but only gives time to retailers during which major changes are made to make retail policy fit for the modern era.

First, high streets must be given the tools to help themselves. Large shopping centres controlled by a single landlord can set sensible parking fees, maintain attractive public spaces, ensure the right mix of shops and so on. On the high street, these powers are either non-existent or vested with local councils. Some councils are effective leaders of local high streets. Sadly, many others are not. In some areas, such as car parking, there has been an ideological war against consumer priorities.

To help the high street thrive, Government should significantly expand the scope of Business Improvement Districts, (BIDs), existing structures that give retailers powers in their area. Where the local authority is consistently failing, retailers should be allowed to vote to be run by BIDs, using management companies to take on the role of local authorities. These new BIDs powers would be far greater than now, though subject to safeguards for local residents. Unlike the present situation, landlords as well as tenants, would be involved in the new BIDs and they would be funded by earmarking existing business rates, not additional levies. BIDs are already proving their worth, with 90% of current BID areas renewing existing BIDs. These proposals build on the Portas Review's favourable assessment of BID structures.

These new, stronger BIDs should control planning issues such as the uses a building can have, car parking and transport policies, and manage facilities such as lavatories and ATMs. BIDs should have powers to limit clusters of particular shops that drive away customers. They should have powers to approve changes to business' internal layouts. Where local authorities are consistently failing, we believe these strong measures are both necessary and justified. This would allow new and different high streets to emerge from the past, with more offices and other spaces, built around a positive set of experiences, not just a place people are forced to go to pick up their weekly groceries.

This is not the only major policy change necessary. This report argues that retail must be freed from the burden of anti-competitive policies. Our 'Town Centre First' policy of forcing shops into particular locations has reduced retail productivity by 25-45%. This burden falls hardest on the poorest. A policy that proclaims a social conscience cuts real incomes for the poorest by around 7% due to higher prices for clothes and food alone. The average middle income household will pay almost an extra £1,000 a year due to restrictive retail policies. The real cost, applied to all sectors, will be even higher. Just as importantly, and contrary to over a decade of political rhetoric, high street shopping is actually less sociable than out-of-town retail. While slightly more people visit high streets alone than with others, people are twice as likely to go to out-of-town centres with other people as go alone. Town Centre First is damaging our social fabric by reducing social interactions, on top of adding to our cost of living.

Town Centre First should be replaced by an Access First policy. This would give low income groups access to social and retail hubs, not dictate where these hubs are located. Politicians can show they support hard working people struggling with rising living costs by abandoning policies that push up the cost of the weekly shop. It is understandable politicians sometimes feel the nostalgic pull of traditional high streets, but the public's spending shows they have already moved on. In addition, polling shows the public oppose policies that push up prices by blocking out-of-town retail. A vocal minority are being allowed to dictate policy.

On top of these major shifts, policy needs to ensure that shops, just like any other sector of the economy, are not overly burdened by regulation or taxation. The retail red tape challenge was a step forward, but we propose the All Party Parliamentary Group on Retail should undertake a bi-annual review of regulation to keep such regulation to a minimum.

Finally, even after reform, the rise of the internet and the move towards shopping as leisure means some high streets and less attractive out-of-town centres, are simply unviable. No serious retail policy report can ignore this. Unattractive destinations with small, costly shops built for another era will be unable to compete, but it is impossible to save them. Refusing to face reality ensures a boarded-up future of derelict properties. Reducing shop numbers in favour of occupied homes or offices are the best way forward, and this report sets out measures to facilitate such renewal.

This analysis and the package of policies it sets out are about ensuring a flourishing retail sector, whether on high streets, in out of town centres, or online. They put consumer needs at the heart of retail policy. Retail changes are driven by consumers seeking, and finding, better experiences and outcomes. The future of shopping in this country is bright. Shopping is becoming easier, more convenient, and more fun. It is time for a 21st century retail policy that embraces this positive vision.

Executive Summary

All sources for the figures are given in the main document

Part 1: The Current Situation

Chapter 1: Changing Shopping Patterns

Retailing has a crucial economic and social role. In 2011 UK retail sales were worth £300 billion, some 20% of UK GDP. One in ten people work in the retail sector. But major changes are underway. The internet is transforming retail. By November 2012 online shopping reached 11% of all sales, a near fourfold increase on 2006. Internet use is growing steadily, more people are buying online, and they are spending more online. Digital music and eBooks have reshaped products. Firms like ASOS in clothing show all sectors are being affected. There is no slowing of this shift to internet retail.

This is a positive. It means higher productivity and so higher living standards. But it is changing the way in which people engage with retail. The *need* for traditional shopping is vanishing. Internet shoppers rate internet shopping as more convenient, cheaper, more extensive in range of choice and less time-consuming. When not using the internet, people need an enjoyable experience from traditional retailers and to obtain what they need in one single trip in order to be enticed to physical locations. The internet's one disadvantage is it is seen as less sociable.

While national retail vacancy rates are around 14%, this masks huge variations. Attractive larger shopping destinations, whether in picturesque market towns or well-planned single owner malls, are doing well. At the other end, some areas have more than one-in-four stores empty. This is particularly true of smaller or less attractive retail centres that cannot provide the quality of experience and convenience shoppers now want. The move from need to experience is reflected by shifts within store types (e.g. fewer stores selling bulky goods like CDs and more experience-based stores such as coffee shops and restaurants). The rich always saw retail as leisure, but only since the 1980s have most people begun to. The internet's rise has made leisure the primary purpose of physical retail.

Physical retail will continue to flourish where it is a pleasant experience the web cannot replicate. This means getting the core issues right. Polling for this report by YouGov shows that the right mix of shops, car access and parking, and, perhaps surprisingly, lavatory facilities are the three top concerns. The three least important areas are wi-fi connectivity, bars and cinemas, and whether a retail location is in or out of town. While a minority rate going shopping with others as unimportant, most shop with others. Out-of-town shopping is more social than high street shopping. 68% of people go to out-of-town centres with other people, but a majority of high street trips are solitary.

Chapter 2: Current Retail Policy

Retail policy gives wide powers to councils. The use to which buildings can be put to is set out in council plans. Areas like car parking and toilet facilities are run by local authorities. If the owners of a derelict shop want it to become a house, or even a café, they need council approval. The Coalition have temporarily liberalised some rules (e.g. shops can change more easily to another type of shop) but after two years buildings must revert back to their previous use. Councils also enforce rules around listed buildings, including alteration of internal layouts. This means retailers have to follow what is laid out in council plans. A Town Centre First policy, introduced due to nostalgia about the decline of small shops, has limited out-of-town competition with high streets. In 1994, 86% of new retail space was out-of-town. By 2001 85% of planned development was in town centres. But chains have continued to grow, with 90% of sales now taking place in chain stores. It simply meant smaller, less efficient ones.

The Coalition-commissioned Portas retail review was of mixed quality. Its greatest failure was a lack of clear analysis about how and why retail was changing. It was highly interventionist in places. It proposed tighter controls on retail, such as requiring new developments to have 'affordable shop' quotas; different business rates for different retailers; and Secretary of State sign-off on all out-of-town development. This echoes tighter policies others have proposed; Islington council stating it may directly support shops, or Ed Miliband arguing councils should exercise even tighter control over what shops can be used for. The government also set up Portas pilots on many high streets. These have mostly used conventional ideas like markets or loyalty cards, and have spent only 7-12% of the funds available. They are a missed opportunity. Portas' idea of pilots was a good one.

The positive in the Portas Review was its support for BIDs, (Business Improvement Districts). These give limited powers to a not-for-profit company enacting agreed policies voted for by local retailers, as long as this doesn't contradict council plans. They are funded by a small additional 1% on local business rates. The BID is voted to be set up for five years. BIDs tend to focus on 'crime and grime'. There are few BIDs, and only tenants, not landlords, are part of BIDs. 90% of areas that set up BIDs vote to renew them. Portas argued successful BIDs should have greater say via neighbourhood plans, compulsory purchase powers, and incorporate landlords. This has not happened. Further, neighbourhood plans are largely council-led, so it is unclear how new BIDs could operate with poorly managed and hostile councils. UK BIDs were modelled on the USA, where they are more widespread, involve landlords, and are more professional. 85% of US BID managers have a BA or above. They control maintenance, security, minor building works and much more. Studies find not only do they regenerate retail areas, but they have a positive wider effect on local communities' viability.

Retailers' regulatory burden is onerous. 60% of SMEs find it an obstacle. One estimate found dealing with regulation took small shops 3 to 5 working days. Regulation may be needed, (e.g. age-restriction on alcohol or tobacco sales), but it must be proportionate.

Retail and taxation's interaction is complex. The arguments online retail is supported by unfair taxation or tax evasion, or lower business rates will save physical retailers, are false. Amazon pays little corporation tax, but so does Starbucks. Online retailers pay business rates as they have offices and warehouses.

In addition, while business rates discriminate against the high street, high petrol taxes discriminate against online delivery models. The £6 billion cost of retail business rates must be set against £300 billion in annual retail sales. What is true is that business rates are high, with average rates ten times a typical council tax bill. The rising price of cost inputs (e.g. fuel and light) has pushed up the RPI used to calculate business rate rises, raising retailers' costs twice over and driving rates up ahead of business' ability to pay. This may be a short term pressure, but it is real. However, rates are only a small issue versus the wider shift above.

Chapter 3: Hidden Retail Drivers; Location, Ownership, and Incentives

Location is critical for physical retailers' success. This includes the neighbourhood factor, involving everything from the surrounding shops to the basics of crime and grime. Council planners, whose critical role has already been noted, do not always prioritise consumers' needs.

Single ownership for an out-of-town or in-town retail centre gives greater control over this neighbourhood factor. On parking provision, attractive communal areas, better branding, facilities such as lavatories and the right retail mix, a single owner can more easily create the overall attractive shopping experience physical retailing needs in order to survive.

Government planners do not have the right incentives to make high streets succeed. Their economic incentives are weak, they lack the information retailers and landlords have, and they often ignore consumer preferences. Ideological capture of the planning system occurs. For instance, critics of the BIDs argue their priorities of safety and cleanliness are sterile, a view that ignores what people want. Despite the fact car use is the second most important issue for customers, there has often been a war on car users, with insufficient and expensive parking just the most prominent element of this.

Current BIDs are too weak to resist this ideological capture. Some councils do a good job as they care about their local area, but others blame their failure on retailers or out-of-town centres. Some private landlords, clinging to the illusion of future rental income, have been reluctant to accept that certain retail premises are unviable. But most now realise this is unviable, allowing change to occur.

Chapter 4: Town Centre First fails our society and economy

Town Centre First has failed in social and economic terms.

Academic studies demonstrate due to Town Centre First, retailers suffer productivity losses of between 25 and 45% due to effects on store size, configuration and location alone. Other studies find our policies have reduced retail productivity below other countries, hurting living standards. The Competition Commission found that most stores in the UK operate below potential efficiency. Town Centre First reduces competition as it makes it hard for new entrants to enter areas. Large retailers can block potential competitors. Town Centre First means inefficient stores, not independent ones. Between 2000 and 2009, 15,000 smaller town centre-stores closed despite Town Centre First.

Town Centre First (TCF) is very regressive as it pushes up prices in the areas low income households spend most on (e.g. clothes and food). The share of income spent on food (not including eating out) and clothing for the lowest income group is 28% versus 6% for the highest group. A 25% loss of productivity cuts lowest group's income by 7% due to dearer food and clothing alone. For middle income households, the loss of productivity and so higher prices for food and clothes alone is worth just under £1,000 a year. Policies like restricting parking or focusing travel toward town centres pushes households to higher costs shops. There is no evidence TCF reduces carbon emissions.

Town Centre First is claimed as a social measure. But polling shows that out-of-town retail is *more* social than high street shopping. Whereas slightly more people visit high streets alone, people are twice as likely to go to out-of-town centres with other people as go alone. If we are just concerned with social interaction, the location of social hubs is not important. The expression of social needs may be changing, but current new shopping patterns appear to actually be more sociable.

Changing shopping habits relate to changing demographics. The 1950s housewife who needed to shop locally three times a week has simply vanished. The number of over 60s will quadruple from 1951 to 2030, most people own cars and refrigerators and freezers, more women work and there are more single parents. People want a trip to the shops to be a pleasant experience, and a retail centre large enough to offer them all they need. They want to spend time and money on things apart from multiple trips to the local high street. People have more choice about where to shop and may choose the internet if we do not create attractive new retail hubs in and out of town centres. Myopia about overseas retail and vague prejudices about other countries shopping habits justify bad policy at home. As early as 1997, 61% of French retail was in super/hyper markets.

Town Centre First proponents argue it supported an urban renaissance. This is not true. In the run-up to the economic downturn, internal migration from our cities continued. Core urban regeneration was due to demographic shifts; international immigration, more single young people and students.

Chapter 5: We must Listen to Customers not Try to Control Them

Current retail policy is heavily prescriptive. Planners are required by central government to define retail centres, impose Town Centre First, and allocate land and buildings. Some of this is often supported by large businesses that benefit from existing market domination. The false assumption behind this is government, not consumers, know best.

Current policies mean current retail vacancy rates of 14% (against just 3% in residential properties). In many areas vacancies are even higher. Vacant stores attract vandalism and damage high street viability. YouGov found by 55% to 39% people think their council does a bad job of attracting shops.

Ultimately, retail must serve consumers. The demise of some high streets is a symptom, not a cause. We cannot respond with ever more control, as online shopping cannot be controlled. The current neglect of consumer preferences and ideological agendas will not work and will mean urban blight, higher prices, and social harm. It is easy to see how nostalgia can be created around high streets. But retail unsupported by people's real needs is unsustainable. Just 26% of people support Town Centre First if it means higher prices for consumers. In contrast to Westminister's support for the TCF policy, voters all reject it, (and Conservatives and those on lower incomes reject it most strongly.) Too often policy 'problems' in retail are just failures to obtain results in line with specific prejudices (e.g. opposition to multiple retailers). Sensible retail policy lets consumers decide retail's shape.

Part 2: Recommendations

Chapter 6: A New Approach Focused on Consumers is Needed

The cost of living is perhaps the most important current political issue. Real incomes for average households have stagnated over the past decade. Focus group work and polling for Policy Exchange, Lord Ashcroft and Labour's Liam Byrne find cost of living a critical political issue - the main economic issue of our time. Reforming retail policy can be a key part of raising living standards.

Retail policy must accept the shift underway within retail. Only larger physical retail centres with attractive experiences and a few convenience stores will thrive. Policy must stop focusing on an arbitrary division between high streets and out-of-town centres. It must accept the primacy of the consumer and focus on satisfying customer needs, both in and out of town. A new approach must minimise regulation and other burdens, removing barriers to out-of-town development and high street success. This means a level playing field, not direct control.

To give a breathing space to retailers and implement reform we recommend a freeze on retail business rates for two years. It would cost just over £360 million, and after this retailers' rates should slowly rise back to what they would have been. This freeze would create a breathing space to implement the changes recommended in this report below, and redeploy some shops to other uses. The business rates revaluation should go ahead. To continue to mitigate the burden of regulation, the APPG on retail should be asked and helped to produce a bi-annual report on how and where retail regulation could be reduced.

Chapter 7: Giving High Street the Necessary Tools – New Business Improvement Districts

To thrive, high streets must serve consumers. We propose a radical shift to strengthened Business Improvement Districts (BIDs) to help them do this. BIDs should have greater control, not only on crime and grime issues, but over the whole retail experience.

BIDs should not be mandatory, as if retailers are happy with their council management this should continue. But if a minority of retailers in an area petitioned for a referendum (e.g. 25%), there would be a ballot for a new and stronger BID, employing the mechanism already used for BID ballots. Crucially, BIDs would no longer have to comply with all council policies. The creation of these new BIDs will stop councils with ideological agendas obstructing the needs of local customers, as councils will have to keep customers content, or retailers will rebel on their behalf.

The powers the new enhanced BIDs have must be substantial. But they should be subject to the safeguard that where changes directly impact on residential properties these residents could, if they want, appeal to the council. This gives BIDs powers while being fair to nearby residents.

BIDs should have landlords involved with them, using the same hybrid voting system for landlords as tenants. BIDs should no longer mean additional levies, but be funded by a small share of existing business rates (6-8%), as they are taking some duties (e.g. cleaning) off councils. BIDs should receive the neighbourhood plan portion of community infrastructure levies, and section 106 payments by developers for development in the BID area would require local BID approval.

Once an area decides it is interested in setting up a BID there would be a short period where different management teams with different proposal would come forward. Retailers would vote on their preferred option, and if no option obtained more than 50%, the two highest ranking proposals would go head to head. The option of returning to council control would be on the ballot paper as well. This allows real debate on each high street's future to occur.

BIDs new powers and responsibilities would include control over parking and non-strategic transport issues. They would control local authority parking rates, setting them at cost with a profit margin on top. They should have powers to reduce excessive parking charges for private car parks, though carefully prescribed. Councils would retain power over serious change (e.g. pedestrianizing a main road) but BIDs powers should be wide (e.g. control over cycle paths or side road pedestrianisation).

BIDs would control most planning issues; most permitted developments and change of use. If it was proposed a high street store should have an extra floor or have a new porch, or a shop change to a home or office this decision would go to the BID, not the council. Major changes would remain a matter for the council (the large-scale demolition and rebuilding of most of a high street would not be within a BID's remit). But if councils propose major changes in the BID area, BIDs would have to approve them (i.e. the council could not impose major redevelopment).

BIDS would be able to permit changes to the internal lay-out for Grade II listed buildings (rarer Grade II* and Grade I buildings would remain the council's prerogative). BIDs would also be able to create new uses classes to limit clusters of certain stores, (e.g. fried chicken or charity stores). This would ensure the area maintains the right retail mix. Any such new use class would require the support of 50% of both landlords and tenants by both numerical and rateable value. Creating and maintaining facilities such as lavatories, ATMs, bins, Wi-Fi and branding would all move to BID control.

BIDs are a pro-competitive move to create a positive consumer experience. Existing single ownership sites do not lead to anti-competitive behaviour, (e.g. Westfield) and neither would they. Stores benefit from competitive clusters. The internet will severely penalise attempts to limit competition. A BID code of conduct would set out strict penalties for those seeking to exercise undue influence. Some BID meetings would have to be public, and BID documents made publicly available.

Where a retail centre has had more than a 25% vacancy rate for more than six months it would see a 'renewal and reinvention' strategy. A special BID that only involved landlords would be tasked with shrinking or reinventing the high street, creating a plan in a three month period that 66% of landlords endorsed. A cluster of 25 retail premises might decide some or all shops should switch to homes or offices. This process would help ensure conversions took place in sensible locations and maximised the value of the properties changing use. As a high street pockmarked with conversions to housing would see lower rents for both homes and shops, it makes sense to co-ordinate changes.

Chapter 8: How Would the New BIDs Processes Work?

The purpose of the new BIDs is to create new holistic experiences for consumers. This chapter is hard to summarise as it shows how new BIDs might work in detail. It sets out how a BID election would be managed and how it would operate, both in terms of an ordinary high street and a renewal and reinvention high street. So for example, on a hypothetical high street the decision to create a BID is followed by local debate for three months with two separate new visions from two different companies. The winning company makes the following changes to revitalise the area:

- A side street that comes off the main high street is partially pedestrianized. This becomes a more attractive area for a couple of restaurants to move into. Benches are created. Trees are planted.
- This newly pedestrianized area sees restaurants open on the street underneath awnings.
- Two new offices are created in a section of the high street. The offices are occupied by estate agents and a solicitor, who benefit from a central location and high footfall.
- Additional parking is created with a new large car park.
- New toilets are installed within the car park with low fees that cover the running costs.
- Two new 'use classes' are created for charity shops and fast food premises. This is used to limit these to a single premise for each of this type of property.
- Several smaller shops knock through to join with neighbouring shops, making larger premises. They gain economies of scale and wider capacity to ensure consumers can find what they want.
- Two new ATM machines are installed on the high street.
- Two properties are allowed to convert to homes. This helps consolidate the street.
- A part time caretaker and cleaner helps keep the high street clean and deal with any anti-social behaviour or other issues that arise.
- There is a short marketing and press campaign to help spread awareness of the changes made.

(Diagrams on how this changes an area are on pages 65 and 66). It is likely that after reform more experience based stores (e.g. coffee shops) will open as the area improves and draws footfall, creating a virtuous cycle.

For the high street engaged in the renewal and reinvention strategy, some of the shops change to housing and two stores knock together to create a new convenience store. In both of these cases the changes are only possible due to the existence of the new BID structure.

While central government cannot direct councils, it can help by helping spread BID and high street best practice. New and larger pilots are needed. A small sum (say £5 million) should be invested, but with perhaps a minimum of £250,000 per pilot from the government. Pilots should try to match funding and focus on the interaction between internet and physical shopping; one-drop shopping, where people use the high street to select items from multiple stores dropped off together; pick up points where online items are collated; or 'try before you buy' before a purchase is made, (e.g. clothing). All these focus on the key issue of how high streets and the internet can work together.

Chapter 9: Internet and Out-of-Town Retail; Accepting people's choices

The policies above give high streets a level playing field. But if people want to shop online or out-of-town, they should be free to do so. Once the barriers to high streets succeeding are removed, wider reforms should increase competition in the retail sector.

Town Centre First should be abolished. It raises the cost of living and is based on false arguments. The abolition of Town Centre First would over time raise average incomes by £1,000 and for the poorest by at least 7%. Politicians have a real opportunity to act on the cost of living agenda and show leadership on a crucial political issue. Ending Town Centre First would create a short term economic boost. Retail properties in the UK are old with two-thirds predating the 1940s. UK companies have a cash pile worth 6.6% of GDP. Changing policy would allow major new construction projects of retail and social hubs. Instead of new hyper-markets, new centres with social activities and retail mixed in together will emerge; lower prices and social interaction.

Town Centre First's only real valid argument is some people cannot access remote retail centres. But an Access First policy can ensure that the poorest have access to social and retail hubs. Adequate cheap parking should be complemented by public transport serving out-of-town centres and poorer areas, ensuring people are not excluded. The Coalition's community 'right to bid' also allows communities who want to protect the last local shop or pub to work together to do so, ensuring that key local amenities can be kept open more easily than the past.

The internet must be allowed to thrive without interference from politicians. Online retailers should obey the same laws, but lower costs from limited physical space are not unfair competition. They are simply lower costs. Spending patterns are likely to continue to shift to the internet for some time. Those who try to oppose this through policies such as extra online sales taxes are proposing uncompetitive, impractical policies that are should not proceed.

For in truth we have a bright and multi-faceted retail future ahead. Options are growing. Online shopping is both good in itself and will lead to a transformation of physical retail toward better experiences. We must accept changes in retail as driven by people's needs. As retail develops in the 21st century, quality, choice, experience and convenience will all get better for customers. 21st century retail policy must embrace 21st century retail. This report's recommendations do just that.

Part One
The Change We Need

1
Changing Shopping Patterns

Retail is a major economic and social force in our society

Retailing is a huge part of our lives and the social fabric of the country. Economically, retail is a critical part of the British economy. As the Department for Business, Innovation and Skills notes:[1]

- UK retail sales are around £300bn, the 3rd largest in the world, after the USA and Japan.
- These sales are worth some 20% of GDP.
- There are nearly 300,000 stores in the UK, with 86% employing 10 people or less.
- The retail industry employs around 3 million people. One in ten of those in employment currently work in the retail sector – the largest area of UK private sector employment.

The retail sector is broad and utilises a range of skills and areas, from shop floor assistants to those designing internet sites. The retail sector is meritocratic with many at or near the top of the sector having worked their way up from within, such as Terry Leahy, the state schooled former head of Tesco, and many retailers coming from immigrant communities, such as Alan Yau, founder of restaurant chain Wagamama.

Retail's social impact is similarly broad. We all use retail, and shopping has always had a social dimension. Shopping is thus intertwined with social change. The department store rose in the late 19th century to sell new quality mass produced goods to a new middle class. The supermarket rose after the Second World War and was partly facilitated by women entering the workforce, a change it also accelerated. Changes in retail and wider society interact and reinforce each other.

What is a high street or retail centre and what types of high street exist?

We know instinctively know a high street or retail centre when we see it, though it can be hard to define precisely. However there are official definitions, which also have policy implications. Planning Policy Statement 4, last issued in 2009, defined a hierarchy of city centres, town centres, district centres and local centres. City centres "*may be very large, embracing a wide range of activities*" (and London having more than one). Local centres at the other extreme are "*a range of small shops of a local nature, serving a small catchment. Typically, local centres might include, amongst other*

1 *BIS Retail Strategy*, Department for Business Innovation and Skills, October 2012

shops, a small supermarket, a newsagent, a sub-post office and a pharmacy."[2] Between these two centres are district and town centres; larger than local centres but smaller than city centres. The guidance notes "*small parades of shops of purely neighbourhood significance are not regarded as centres*" and so are not covered by guidance, although retail policy does affect them.

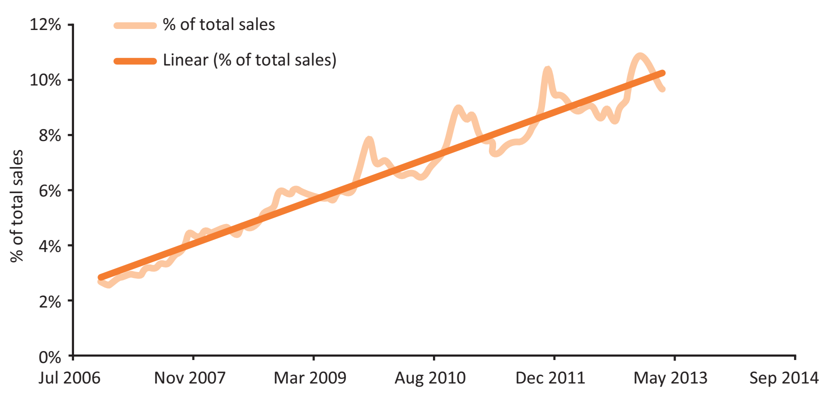
Planning guidance also defines retail centres by location. A 'town centre' is '*the primary shopping area and areas of predominantly leisure, business and other main town centre uses within or adjacent to the primary shopping area.*"[3] This is contrasted with "edge-of-centre" and "out-of-town centres", developments at the fringe of the urban centre or entirely outside the existing urban area.

Guidance also uses concepts around 'primary' and 'secondary' frontage, with centres being defined by high levels of retail frontage in their primary area, and these surrounded by secondary frontage areas with non-retail but public uses (e.g. cinemas, restaurants, businesses). The National Planning Policy Framework (NPPF), which supersedes all previous planning guidance did not discuss the nature of a retail centre in as much detail, and used the phrase town centre throughout. However, it noted that "*references to town centres or centres apply to city centres, town centres, district centres and local centres*".[4]

The rise of the internet is reshaping retailing

The biggest change in retail for decades is now well underway. This is the rapid increase in the level of retail sales going online. This rapid growth in internet sales is making old assumptions about business strategy redundant. As recently as November 2006, the total proportion of sales made online was just under 3%. Six years later in November 2012 this had nearly quadrupled to nearly 11%.[5] This growth shows no sign of slowing down, and those who argued that online retail sales would level off have so far been proved wrong.

Figure 1: The steady rise of internet shopping in recent years[6]



The reasons driving this shift are explored in polling further on. What is clear is that they not going away. In addition, not only are people buying goods or services they used to buy offline online but the internet is reshaping goods and services. For example in 2010 17.5% of UK album sales took place via digital channels.[7] Ebooks are becoming more common. Some retailers are entirely

2 *Planning Policy Statement 4: Planning for Sustainable Economic Growth*, DCLG, 2009

3 *Planning Policy Statement 4: Planning for Sustainable Economic Growth*, DCLG, 2009

4 *National Planning Policy Framework*, DCLG, 2012

5 *Time Series Data: Retail Sales*, Office for National Statistics, Data from original February 2013 release

6 *Time Series Data: Retail Sales*, op cit

7 *IFPI Digital Music Report 2011; Music at the Touch of a Button*, International Federation of the Phonographic Industry, 2011

bypassing bricks and mortar altogether. Between 2008 and 2010 the proportion of retailers operating with online stores alone rose from 3.4% to 5.8%.[8]

It is important to realise that while jobs might be lost moving online, other new jobs are being created, and that the move online will also raise productivity, allowing for rising living standards. Those who worked in retail will go on to find new jobs providing new services. Ultimately, real economic growth is only possible through lower costs of production, so that goods and services are cheaper and more plentiful than they were previously. The continuing shift to online retail is part of the process of rising living standards and economic growth. But it does change retail's nature.

The share of the population online continues to rise steadily. By 2012 80% of households had home internet, up from 57% in 2006.[9] The proportion of UK adults using the internet will likely be close to 100% by 2020. The rise of smartphones and tablet PCs is making internet shopping mobile and ubiquitous. There is steady growth in the numbers of online shoppers, despite a time lag between people moving onto the internet and using it to purchase goods. In 2006 44% had made online purchases.[10] By 2012 67% of people had.[11] Not only are more people spending online, the amount each internet shopper spends online has also risen. Whereas in 2006 44% of the population spent money online and these sales comprised 3% of total retail spending,[12] by 2012 then 66% of people spent money online, generating 11% of total spending.[13] A roughly 50% rise in the proportion of shoppers purchasing online went along with a near 400% rise in the share of retail spending online. As people become more comfortable with shopping online, the amount that they spend rises.

It is impossible to predict how far these changes will play out. If online shopping continues to grow by 8% as a share of retail spend every six years, by November 2024 it will make up around 27% of the retail market. If the current percentage growth is replicated, meaning online sales nearly quadruple every six years, within fifteen years all retailing would be online. This latter scenario is unrealistic, for reasons we explore further below, in that the experiential nature of some goods and service cannot be replaced by online shopping (e.g. a coffee with friends). However the figures show how fast the market is changing. Internet shopping's rise is faster than previous major changes in retail. It took the better part of a century for department stores and supermarkets to be entrenched in the UK, but in just over a decade and a half the internet will revolutionised retail.

Caution about underestimating the effect of the internet seems sensible. It was once thought that putting clothes shopping online would be very difficult, (unlike music or books), due to a highly differentiated visual and tactile product. Yet ASOS (As Seen Online Shopping), which only sells clothes online, saw sales rise from £223 million in 2010 to £495 million in 2012, a near doubling of sales that shows predictions the internet cannot enter particular sectors are likely to be false.[14]

The internet is cheaper, more convenient and offers more goods, but is less sociable

This report tries to understand how the views of the public drive retail trends and what the public thought about current retail policy and policy options. The key issue is to understand what makes a good shopping experience. Therefore in 2013 Policy Exchange asked YouGov to undertake national polling on a variety

8 *The Retail Industry, Briefing Paper SN06186*, House of Commons Library, 2013

9 *Statistical Bulletin; Internet Access – Households and Individuals, 2012*, ONS, August 2012

10 *Internet Shopping; An OFT Market Study*, OFT, June 2007

11 *Internet Access – Households and Individuals 2012 Part 2*, ONS, 2012

12 *Internet Shopping; An OFT* Ibid.

13 *Internet Access – Households* Ibid.

14 *Financial and Operational Highlights, ASOS Annual Report*, ASOS, 2012

of topics. The first major set of questions tried to understand views of the public and internet shoppers on how internet shopping compared to retail on the high street or out-of-town centres. The results are provided in the table below. Those who use the internet think it is cheaper, less time consuming, more convenient, and offers a wider range of goods. The support for these statements ranges from a net positive rating of +62% to +75%. (This net figure is the figure for those who agree minus those who disagree. If 70% of those using the internet think it is more expensive, and 3% think it is more expensive, the net figure is +67%). This is a pretty formidable set of advantages. It shows that the rise of the internet is unlikely to slow down any time soon. Once people shop online they think it has significant advantages to physical retailing.

Table 1: What do internet shoppers think of internet shopping compared to physical retailing? [15]

Internet shopping ...	is more convenient	is less expensive	offers a wider range of goods	is less time consuming	is less sociable
Net agreement	+75%	+67%	+66%	+62%	+82%

There are many reasons why the internet has positives for shoppers. On cost a BIS commissioned survey noted internet shopping means lower costs for consumers. As it pointed out "*renting a high street store requires financial commitment in signing a lease, fitting out the store, filling it with stock, employing staff and day to day operating costs; business rates*".[16] Online retail has a wider range of goods and is more convenient, as delivery can occur at home or work, and shoppers can keep browsing till they find exactly what they want. It is no coincidence internet use peaks each year around November as shoppers go online to obtain their Christmas shopping, eliminating a process stressful enough to spawn a host of 'comedy' films based around the desperate need to find last toy/turkey/gift in the shop.[17] The internet has a formidable range of advantages.

Physical retailing will remain as or part of a leisure experience

The only major area where the internet cannot replace the shopping trip is the experience itself. For example, internet shoppers net agreement that internet shopping is less sociable than physical retailing is +82%. There is a small niche for physical retailing around satisfying an immediate need for certain perishable goods (e.g. a pint of milk). But bar this small niche, internet shopping trumps bricks and mortar shopping; unless it provides a positive shopping experience.

Only by understanding this process can we understand how retail is being reshaped by the internet. Until recently physical retailing was both a need and a social activity. But the internet is now making the *need* for shopping in the traditional sense redundant. The dissolution of need means as we no longer need to visit shops. A pleasant experience must entice us to do so. We can shop online to simply obtain a specific item at the lowest price. We do not need to worry about the trip being made unpleasant by bad weather or the retailer having no stock when we arrive. Other than a few well placed 'convenience' stores (e.g. a railway station flower shop or 24 hour store in a busy area selling essentials), the *need* for physical retail is vanishing.

15 *YouGov Polling for Policy Exchange*, April 2013. The total sample size was 1,609 adults. Fieldwork was undertaken between 14th – 15th April 2013. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+). YouGov are a member of the UK polling council and abide by its rules

16 *Understanding High Street Performance*, Department for Business Innovation and Skills, 2011

17 This might be seen as a major blessing created by the rise of online retail

This shift towards retail experiences as leisure has always existed for the rich, but began to percolate down to most people in the 1980s onwards. However, the internet is rapidly accelerating this shift by making it the prime purpose of physical retail. As the Government's own Portas Review noted, the shift of retail centres to leisure centres is well underway. "*The shopping mall too has changed beyond recognition … together cinema premieres, world-class restaurants, bowling alleys, art galleries and luxury brands – replacing the lightless, soulless experiences of the past. Once visited, these new phenomena have raised and reframed consumers' expectations*". For physical retailers this improved experience isn't about gaining market share but about basic survival.

The result of this shift is that many traditional physical retailers are struggling. National vacancy rates for retail premises ran at 14.6% in the year to June 2012.[18] But retail is shifting in nature, not just shrinking. Retail has primary, secondary and tertiary centres, with primary largest and most important and tertiary least. Secondary and tertiary locations are bearing the brunt of the current downturn. Primary centres are doing well. Attractive primary centres are doing best of all. A study conducted in 2011 for BIS found that, "*voids rates in prime shopping areas are much lower than in secondary locations and have fallen over the past couple of years*."[19] Indeed, prime vacancy rates in the most desirable retail locations now back to pre-2007 levels.[20] The aggregate vacancy rate hides a growing disparity in the levels of vacancies in attractive areas versus less attractive ones, with high streets in places like Camden, Exeter, Cambridge, and St Albans having rates lower than 10%, while places like Grimsby, Stockton, Blackburn, and Margate having rates in excess of 25%.[21]

Large retailers that can choose to leave less attractive high streets are doing so. As a BIS study noted, "*multiple retailers in particular down sized their store portfolios and focused on developing fewer but larger stores in the biggest retail destinations*".[22] This move by retailers toward a few large stores helps consumers find what they want first time, matching the convenience and ability to find their preferred item online. Retailers are concentrating on a smaller number of larger stores in more attractive and larger destinations, reducing the number of smaller shops. Argos new strategy involves no new UK sites opening for the foreseeable future. 953 chain stores closed in the first six months of 2012 alone.[23] Unattractive sites, predominantly on high streets, but in some out-of-town centres as well, will struggle to maintain viability in the face of consumer pressures.

Another facet of this shift towards experience is shown by the move within retail to new sectors and models, largely based on experiences and/or time saving features. For example, a 2012 report found that the number of coffee shops doubled to 15,723 in the last six years.[24] A CBRE report noted catering institutions have risen roughly fifty per cent since 2006. Leisure destinations also continue to grow.[25] This is a typical example of what is happening on our high street. Those which deal with physical bulky goods such as music or books are struggling, but people still want to go to and have a meal or coffee out with friends or family. It creates an atmosphere and reduces domestic work. Shopping centres large enough to have all you need and a nice place to eat and drink are thriving. Those that are small and cannot meet people's needs and new expectations are failing.

The rise of the internet and of shopping as a leisure activity is the key to understanding retail's future. We must shape retail policy according to this emerging reality.

18 *Too Many Shops*, Local Development Company shop vacancy report, September 2012

19 *Understanding High Street Performance*, BIS, December 2011

20 *The Challenges of Attracting Investment back to the High Street; Journal of Urban Regeneration and Renewal, 6(2),* M Teale, 2012

21 *The Retail Industry, Briefing Paper SN06186,* op cit

22 *Understanding High Street Performance*, ibid

23 *More than 30 chain stores closing a day*, The Guardian, 18 October 2012

24 *Project Café 12*, Allegra Strategies, December 2012

25 *Shop expansion and the Internet, UK Retail ViewPoint*, CBRE, May 2012

Box 1: The changing face of high streets is due to consumer pressure

The shift in retail combined with the current downturn has pushed many once profitable and famous retailers into administration. Since the last recession began JJB sports, Clinton Cards, Past Times, Barratts, Woolworths, Game, Blacks Leisure, Peacocks, Comet, Optical Express, Famous Footwear, Best Buy, Jessops, Blockbuster, HMV and many more have all vanished. Others have reduced their scale and scope (e.g. Oddbins or Habitat). Current changes are huge and are part of the restructuring process retail is going through. The closure of so many retailers is a reminder the consumer has the final say on the high street. If companies cannot adapt to serve their needs, they will go bust. And this ultimate sovereignty of the customer must be the right way to run retail policy, not government constraint or subsidy. Companies must exist to serve customers, or they become unhealthy parts of a taxpayer-dependent economy that fails to serve the public.

What do people want from modern physical retailing?

The trends within the retail sector in terms of vacancies and shop type illustrate how the changing needs of customers are driving changes within the retail sector. To further help understand these changes and what people's want from physical retailing, we again asked YouGov to undertake polling for us. The tables below set out what people want from a modern retailing experience when given a list of options.[26] The top five most and least important issues for people from a list are set out in the Tables 2 and 3.

What this polling found was that the basics are critical. The basics do include the right shops, but also parking and lavatories are also crucial. Feelings of safety, restaurants, as well as public transport connections, are all important. Shoppers are less interested in connectivity, aspects such as cinemas and bars, and whether the store is an out-of-town centre or a traditional high street.

We also wanted to find out how people shopped, whether they did so alone or with other people. While for a minority of people shopping is not a social activity, then as the table shows below, most people do go shopping with other people. This is particularly true of out-of-town destinations. Over two-thirds of people's last trip to an out-of-town centre was with other people. This finding, that out-of-town retail is more social than high street retail, is interesting given current rhetoric.

Table 2: Thinking about going shopping, which of the following are MOST important to you? (Please choose up to four)

Rank	Issue	Proportion selecting
1	A wide range of shops that are good value and sell the type of goods you want to buy	71
2	Easy car access and enough cheap/free parking	57
3	Clean and available lavatories	36
4	A feeling of safety	28
5 (JOINT)	Restaurants or cafes to have something to eat	26
5 (JOINT)	Easy Access by public transport	26

26 *YouGov Polling for Policy Exchange*, op cit

Table 3: Thinking about going shopping, which of the following are LEAST important to you? (Please choose up to four)

Rank	Issue	Proportion selecting
1	Connectivity	51
2	Destinations like a cinema or bars	50
3	Being in a town-centre rather than out-of-town centre	30
4	The company of friends or family	25
5	Easy Access by public transport	19

Table 4: What proportion of people went shopping with others or alone on their last trip?*

	Out-of-Town	High street
With others	68	49
Alone	32	51

* This has been recalculated to reach 100% and excludes those who do not visit each or can't recall

Box 2: Poundstores, charity shops, and bookmakers: A death rattle not rebirth

The current retail situation is worse than headline figures suggest. The level of retail vacancies is only creeping up slowly. But this masks a shift in the retail sector. 2011 Local Data Company survey found growth areas of retail on the high street are the convenience food sector, discount stores, charity shops, bookmakers and pawnbrokers.[27] It is good otherwise vacant shops are filled, but this change is not the sign of a healthy retail sector. These stores do not represent a rebirth, but a death rattle.

There is nothing wrong with bookmakers or charity shops. But their growth is because other shops cannot afford to open. It is also due to the fact that charity shops have a major rebate in business rates (80%) due to their charitable status. As the charity shop sector's rebate is paid by central government money, local authorities are happy to see them open up. Yet filling the gaps in the high street with fried chicken and charity shops eventually drives away customers, particularly higher income ones, meaning that the current changes are not a stabilisation. Instead on many high streets they are a symptom of a continuing decline caused by the wider shift to retail as leisure.

27 *Shop Vacancies 2011 Press Release*, The British Property Federation, 2011

2

Current Retail Policy

The lynchpin of current retail policy; Council plans and 'Town Centre First'

The internet is changing and restructuring retailing, but retail policy is still based on a pre-internet era. In many ways it is reliant on assumptions that retail should look as it did in the 1950s, with multiple little local high streets serving small local populations, all heavily managed by the local council. A policy called Town Centre First limits the development of out-of-town shopping, while current retail policies give councils heavy powers in local high street management.

The use of land in this country is not based on a free market. Instead, it is based on councils' local plans. These determine the amount and location of land and space made available for particular purposes (e.g. homes, offices, and shops). Land can exchange hands, but it cannot deviate from what the council sets out as its permitted use. This broad approach has been the case since the 1947 Town and Country Planning Act. Allied to councils' control of issues such as parking and facilities, this means councils have a huge impact on the success or failure of their local high streets. Businesses on a high street must go through their local council to change a building's use, redesign how parking works, or improve their cleaning facilities.

This system restricts competition, and in many ways has grown tighter in recent years. In the 1980s free market minister Nicholas Ridley prioritised consumer choice, and local authorities were encouraged to allow retailers greater flexibility. In turn, due to rising car ownership, higher incomes and better expectations of a shopping experience, out-of-town retail grew. By 1994 86% of all new retail space developed on out-of-town centre sites, up from 75% in 1989, and 40% in the late 1970s.[28] This growth of out-of-town shopping came to an end in 1996 with the introduction of Planning Policy Guidance 6, (PPG6), part of the increasing guidance that followed the 1990 Town and Country Planning Act. This created the 'Town Centre First' policy. While proposed retail sites with planning permission came on-stream, (e.g. the large Bluewater centre in a disused quarry in North Kent), this policy eventually all but stopped the growth of out-of-town development. By 2001 one report found 85% of planned retail development sites were located within existing town centres.[29] So development outside of town centres continues, but very little compared to the 80s and 90s.

Town Centre First makes clear new retail sites outside town-centres can only be considered if they do not damage the existing town-centre. This is the 'need' test. Retail applications for town-centres are also seen as preferable to edge-of-town

28 *Understanding High Street Performance*, op cit

29 *Shopping Centres in the Pipeline*, CB Hillier Parker, 2001

centres, which are in turn preferable to applications for out-of-town development. This is known as the 'sequential' test. The need test and the sequential test are the key to Town Centre First. Town Centre First also attempts to steer the location of leisure activities and other decisions in the remit of public policy towards town-centres in order to boost high streets. It presupposes existing high streets should be the main way to shop.

Both Labour and the Coalition have continued with the Town Centre First approach. Labour published a slightly amended version (Planning Policy Statement 4) that replaced PPG6 but did not change its substance. The most recent incarnation of Town Centre First was in the Coalition's National Planning Policy Framework (NPPF), published in 2012 to replace existing accumulated planning guidance. This did not fundamentally alter Town Centre First. Then Minister for Planning Greg Clark stated, "*The Government are fully committed to supporting town centres. Town centres are at the heart of our communities and neighbourhoods and have an important role to play in the growth of local economies.*"[30] He stated "*Our commitment to the "Town Centre First" policy … continues. It has been very successful.*"[31] The NPPF set out planning policies on retail should be "*positive, promote competitive town centre environments and set out policies for the management and growth of centres over the plan period*". Local plans, against which all applications for planning permission must be considered, "*should require applications for main town centre uses to be located in town centres, then in edge of centre locations and only if suitable sites are not available should out of centre sites be considered*".[32] As non-conformation with the local plan is grounds for refusing planning permission, out-of-town development within these plans is naturally very difficult.

Why Town Centre First?

Town Centre First essentially assumed consumers should not make decisions on where to shop. Government, through local councils, should do so instead. It was pushed by certain pressure groups to halt the growth of out-of-town centres. John Gummer, then Environmental Secretary, was lukewarm about personal choice. There was a widespread nostalgia amongst parts of the public and policy makers for old fashioned high streets, even as consumer patterns shifted toward out of town retailing. John Gummer at the time argued that Town Centre First "*reflects the government's determination to revitalise our town centres by encouraging developers to invest in town centres … We are determined that town centres should be attractive and competitive locations for investment*".[33] But in reality, Town Centre First was an anti-competitive measure about restricting out-of-town developments. It did not necessarily improve town centres directly.

Town Centre First also gained emotional and political weight due to the decline of smaller shops. Since the 1950s smaller shops have been disappearing. The number of butchers and greengrocers fell from 40,000–45,000 each in the 1950s to fewer than 10,000 each by 2000. Bakeries declined from around 25,000 in 1950 to around 8,000 by 2000, and fishmongers from around 10,000 to around 2,000 over the same period.[34] There was a belief that policies that stopped large new developments would recreate the shopping patterns of the past. This has not been a success, with patterns continuing to change. For instance in the 1960s chain retailers accounted for barely 20 per cent of retail sales. Today the same figure is over 90 per cent.[35]

30 *Town centres, planning and supermarkets, Standard Note SN01106*, House of Commons Library, April 2012

31 *Parliamentary Debate, House of Commons, 5 December 2011, Column 15*, Hansard

32 *National Planning Policy Framework*, DCLG, March 2012

33 *Parliamentary Debate, House of Commons, 20 July 1995, Column WA42,* Hansard

34 *The Right to Retail; Can localism save Britain's small retailers?,* ResPublica, April 2011

35 *The Challenges of Attracting Investment back to the High Street, op cit*

Current policies restrict what buildings can be used for but are being temporarily loosened

In the use class system, retail is encompassed by the 'A' class of buildings. To move between use classes, (including between most sub-divisions), planning permission must be granted by the local council, which will consult the local plan it has drawn up (including the designated city or town centre and other shopping centres), before deciding whether or not to permit the change.

The use classes system is quite restrictive, as the table below sets out. The changes of use that are permanently allowed without planning permission are shown by the last column. If the owner of a shop wants to convert it to a business premise or a residential property or the owner of a typical shop wants to change it to a cafe they have to request permission from the council. The council may refuse to grant permission even if the shop remains derelict.

Table 5: Main use classes shown with sub-divisions within A (retail) use also shown

Class	Description	Permitted uses include	Changes without planning permission
A1	Shops	Shops, Post Offices, Travel Agencies & Ticket Agencies, Hairdressers, Funeral Directors & Undertakers, Retail Warehouses, Domestic Hire Shops, Dry Cleaners, Internet Cafés, Pet Shops, Showrooms, Sandwich Bars.	None
A2	Financial & Professional Services	Financial Services: Banks, Building Societies & Bureau de Change. Professional Services: Estate Agents, Employment Agencies and Betting Shops. Excludes Health or Medical Services	To A1 (If there is a ground floor display window)
A3	Restaurants & Cafés	Where food and drink is sold to be consumed on the premises.	To A1 or A2
A4	Drinking Establishment	Public House, Wine Bar or other Drinking Establishments. Excludes Nightclubs.	To A1, A2 or A3
A5	Hot Food Take-away	Where hot food is sold for consumption off the premises.	To A1, A2 or A3
B	Business/ employment uses	Uses permitted are as offices, research and development, general industry, storage and distribution centre etc.	Some changes within class permitted (e.g. B1-B8 if <235m^2)
C	Dwelling Houses and hotels	Hotel, residential care, secure residential accommodation like barracks, typical home used by single person or family, houses with 3–6 unrelated individuals living together etc.	None
D	Other uses	Museums, law courts, public libraries, place of worship, cinema, bingo hall, gym etc.	None
Sui Generis	All other uses	Theatres, Nightclubs, Amusement Arcades, Launderettes, Petrol Filling Stations etc	None

Of course, there is a clear need for a planning system and change of use to protect property owners from neighbours' changes affecting their quality of life (e.g. to prevent a random house simply becoming a pub). But the current system does not judge applications on the impact on neighbours, or local amenities. It sets out to judge it with reference to the overall local authority plan.

There have been a series of *temporary* liberalisations under the Coalition, allowing additional changes of use without planning permission. For example, offices, or business class (B1), can convert to houses (C3) without planning permission, though only until 2016. In addition, the government has signalled that it intends to allow change of use to categories A1-A3 from all buildings designated as A, B1, D1 or D2 class.[36] However, again these changes are a temporary liberalisation, in this case for two years. Further in the case of these changes the building will have to change back at the end of this period to their original use. The Coalition has moved further in thought than action on change of use, with a 2012 review noting change of use "*can be a burden on business in terms of time and cost and may be of little value if the change of use does not impact adversely on the neighbourhood*".[37] However, to fundamentally liberalise change of use would not be possible without moving away from the overall plan-led system, which the Coalition has been unwilling to do so far.

In addition to change of use issues, high streets are sometimes hit by heritage rules, particularly for more common Grade II buildings. These make up 94% of listed buildings and the rules are extensive.[38] For example changes can be as simple as knocking down internal walls to open up a space. Despite the fact no external changes are made and this is attempting to make the building stay in its original use it is not necessarily allowed. This is particularly a problem in older high streets.

The Coalition's current review of retail policy; The Portas Review

In 2011 the Coalition hired Mary Portas to undertake a review of the high street. The report, dubbed 'The Portas Review', was published in December 2011. It was heavily interventionist in many places, with recommendations to control consumer choice including:

- Secretary of State "exceptional sign off" for all new out-of-town developments.
- All large new developments to have an "affordable shops" quota.
- Government should consider whether business rates can better support small businesses and independent retailers.
- Local authorities should use their new discretionary powers to give business rate concessions to new local businesses.
- Retailers should report on their support of local high streets in their annual report.
- Large retailers should support and mentor local businesses and independent retailers.[39]

The Portas Review had some positive elements. But it did not contain a serious analytical framework that set out the reasons behind the high street's underlying difficulties (i.e. the rise of the internet and acceleration of retail as leisure, and why

36 *Planning: promoting regeneration*, Eric Pickles Written Ministerial Statement, 9th May 2013

37 *The Portas Review; An independent review into the future of our high streets*, BIS, December 2011

38 *Guidance notes for: Application for Listed Building Consent for Alterations, Extension or Demolition of a Listed Building*, Planning Portal – Application Type Guidance V3.2

39 *The Portas Review; An independent review into the future of our high streets*, ibid

some high streets are not well placed to manage this). The Portas Review essentially assumed the current system was broadly fit for purpose, customers had a choice between different physical locations, and high streets needed even further priority. Yet it also recognised the high levels of retail vacancies and general housing shortage pushed towards flexibility on conversion of shops to homes. Positively, it also recognised some high streets are held back by councils not taking a sensible line on areas such as parking or flexibility on change of use, arguing (correctly) that high streets had to serve consumers effectively in order to survive.

The Portas Pilots were set up to explore ways to try to 'save' high streets

The Coalition also supported 12 town centre 'Portas Pilots'. This concept was proposed in the Portas review. The idea behind these was "*asking local leaders to come up with innovative ideas of their own to boost struggling high streets and town centres*". These would be led by "*dedicated Town Teams – providing a vision and strategic management for their local high streets*."[40] The total maximum available for each of the first round of bids was £100,000, making up a total of £1.2 million. Later on, there were to be a further 100 pilots funded by an additional £10 million.

Thus far, the pilots seem to have been largely unsuccessful. There has been a tendency to spend money on conventional ideas such as running vintage fairs and local markets, or creating local loyalty cards. Councils have also come under attack for failing to use the majority of their available pilot funds. Local councils have only spent 7.2% of the £10 million fund and around 12% of the £1.2 million fund available to them.[41] This seems to indicate that the pilots lack a transformational edge, and that local authorities may not be best placed to run such projects. One idea in the Portas review, a 'new Post Office', might be transformational. This was the idea of a one-stop depository for goods bought on the internet, much like the 'Amazon lockers' seen across parts of London, where goods purchased from this online retailer can be collected. Unfortunately this idea does not appear to have been taken forward by any of the high streets. The pilots have been too small scale to really take off.

Policies telling us where to shop have grown along with the high streets woes

When the Town Centre First (TCF) policy was introduced it was about "*altering the balance in planning policy to favour town centres rather than out-of-town shopping*".[42] Fifteen years later, the Portas Review argued all out-of-town development should require Secretary of State 'exceptional sign-off'. There was no pretence about tilting the balance toward town centres. Instead the goal was to halt out-of-town development to force people into their local high street, ignoring that the changes are focused on online shopping and how this is changing the retail sector.

Individual councils are beginning to respond to the ongoing crisis in high streets by proposing even tighter control over retail in their area. Islington council, for example, pledges the "*council will take positive action to support the provision of local shopping the borough and will use a wide range of powers and initiatives for this purpose.*"[43] This includes options such as "*taking local shops into council ownership*" and "*direct financial assistance*".[44] In April 2013 Ed Miliband argued that each council should be able to vary change of use rules so each council could effectively police the types of

40 *Portas Pilots; Prospectus: an invitation to become a Town Team*, DCLG, February 2012

41 *High Street retail fund 'barely touched'*, BBC News, 14 March 2013. Based on FOI requests to councils

42 *The Town Centre Battles Back*, PR Newsweek, 22 April 1996

43 *Shopping and Town Centres; Chapter 8*, Islington Unitary Development Plan, available online

44 *Shopping and Town Centres; Chapter 8*, ibid

shop allowed in their area. Some politicians see the continuing struggle of the high street and want to interfere as vacancies rise, without understanding how and why retailing is shifting. If a high street cannot satisfy consumer needs, it will not be able to continue as a high street indefinitely.

Business Improvement Districts (BIDs) on high streets

One of the Portas Review's strengths was a focus on Business Improvement Districts (BIDs). BIDs were introduced in the UK in 2003 and imitated the growth of successful US arrangements. The goal of BIDs is that within a small and defined area, local businesses elect a management body to increase overall footfall and sales.[45] As of end March 2013 the British BID association found a total of 152 BIDs in operation in the UK.[46] UK BIDs are relatively weak. BIDs must set out their proposed activities before their creation. They must follow the policies of the local authority. They set out the proposed action of the BID before a vote is held to adopt the BID. A 2007 review by the Department of Communities and Local Government found a wide range of reasons for BIDs being established, "*including the need for environmental improvements, problems of crime and safety and a need to attract more visitors and customers to the areas concerned*".[47]

> "Individual councils are beginning to respond to the ongoing crisis in high streets by proposing even tighter control over retail in their area"

Existing BIDs rely heavily on the support of forward thinking local authorities and focus on crime, grime and marketing. They are also short term, being set up for five years by their initial vote. After this, there is a vote to see if businesses want to continue with the BID. Of the 65 renewal votes on BIDs by end March 2013, 58 saw their BID renewed. This roughly 90% renewal rate shows retailers tend to find BIDs useful despite their limited role. Retailers' support is despite BIDs being funded by a small additional business rate levy (usually an extra 1–2%) on top of business rates.[48] A not for profit company is established to run the activities of the BID, using the funds raised by this levy.[49] BIDS' voting mechanism to determine officials and the approval of the plan uses a simple majority in both individual votes cast and the rateable value of the properties under review. This means that larger businesses have a greater say due to their size, but smaller retailers must also be won over.

All businesses within the BID area are involved once a BID is proposed. However, currently BIDs do not involve landlords but only tenants. Some argue this changes the nature of the BID by limiting their time horizons.[50] This does not prevent some in-kind and voluntary contributions from land owners to BIDs, but the evidence is that such contributions have been relatively small.[51]

The Portas Review took a forward looking view on BIDs. It argued that where BIDs had been successful they should be upgraded to new 'Super-BIDs'. "*New Super-BIDs should have the same rights as local authorities to use Compulsory Purchase Orders and enter and upgrade strategic properties, bringing empty property back into use. Super-BIDs should also be able to lead business-led neighbourhood planning*". Portas also called for landlords to be allowed to join in BIDs across the country. This is already the case in London, where the rules were changed under the Crossrail Act.

The neighbourhood plans Portas mentions were introduced in the 2011 Localism Act. Neighbourhood plans are created by local communities with power

45 *The Role of Small and Medium Enterprise Retailing in Britain*, ibid

46 BID Ballot Results, British BIDs, available at http://www.britishbids.info/BIDLocations.aspx, accessed end of March 2013

47 *The Development and Implementation of Business Improvement Districts*, DCLG, 2007

48 *Business Improvement Districts Standard Note, SN/PC/4591*, House of Commons Library, November 2012

49 *Business Improvement Districts Standard Note, SN/PC/4591*, ibid

50 *A consideration of the UK Government's proposals for business improvement districts in England*; Property Management, 23(3), M. Blackwell, 2005,

51 *The Role of Property Owners in Business Improvement Districts*, DCLG, December 2008

over non-strategic planning. They either follow parish council demarcation or can be approved by a committee of at least 21 people who live or work in an area. You can have a business neighbourhood plan in an area designated as a business area. These allow businesses to take the lead in developing the neighbourhood plan. Areas in the centre of Liverpool, Milton Keynes and multiple parts of London are among eight areas developing a business neighbourhood plan. With all neighbourhood plans there is a vote to adopt the neighbourhood plan, and to approve a business neighbourhood plan then there is a vote amongst both local people and local business. Both votes must pass, with local business votes being conducted under a one-business, one-vote principle. The voting mechanism for BIDs and neighbourhood plans are thus currently different.

At present, any business neighbourhood plan is subordinate to local authority planning. Business neighbourhood plans are one-off plans that must fit with local plans rather than neighbourhoods taking over council powers. In addition, the local authority must designate an area as a business area neighbourhood plan. Neighbourhood plans need a great deal of bureaucracy (e.g. engagement with statutory consultees and EU law) and are yet to bed in.[52] Without the support of the local council, neighbourhood plans will not get off the ground. As sensible councils will take on board local views (including local retailers), where neighbourhood plans are needed most they are least likely to be created, (i.e. poorly run local authorities). It is currently unclear just how far business neighbourhood plans will be able to go on issues such as change of use if they wanted to explicitly contradict local plan judgements. So far neighbourhood plans have almost completely been part of the local authority planning process, an improvement in consultation not a new model.[53] They have been better in terms of engaging local people but not a step-change in planning. Neighbourhood plans in their current form are positive but keep the majority of the current system intact.

The 150 UK BIDs represents perhaps a few per cent of the total number of high streets given Portas noted there are over 5,000 'high streets' in the UK,[54] most of which are still retail centres. Thus the judgement on BIDs must be that with a high rate of renewal yet very slow diffusion across the country they seem to be having a positive – but limited – impact.

BIDs in the USA

Business Improvement Districts in North America also took time to flourish. The first were introduced in the 1970s in Canada, and spread south as they proved their worth. In the USA there is no 'standard template' for BIDs as each state legislates on how exactly they operate, and there are a wide range of names aside from Business Improvement District, such as Public Improvement District (Texas) or Neighbourhood Improvement District (Pennyslvania).[55] As in the UK, the diffusion of BIDs is a steady on-going process. Some states where BIDs have been operating a long time have dozens or hundreds (e.g. New York, Wisconsin), whilst in other states there are just one or two (Nevada, Mississippi).[56] The total number of BIDs in the USA is now over 1,000.[57] There is also evidence older cities with older downtowns find BIDs particularly useful. Newer areas and recently expanding cities in the sunbelt areas such as Houston or Atlanta often have large, single ownership malls as retail hubs, reducing the need for BIDs. This

52 *Town and Country Planning, England; The Neighbourhood Planning (General) Regulations 2012, Statutory Instruments*, No. 637, HMSO, 2012

53 The Dawlish case, where a neighbourhood planning front runner saw its neighbourhood plan thrown out as there was no local authority plan in place, indicates neighbourhood plans are very subordinate to local plans

54 *The Portas Review; An independent review into the future of our high streets*, op cit

55 L. Hoyt, *The business improvement district: an internationally diffused approach to revitalization*, International Downtown Association, 2005

56 *2011 Business Improvement District: Census and National Survey*, International Downtown Association, 2012

57 *2011 Business Improvement District: Census and National Survey*, ibid

would suggest that the UK is more likely to find BIDs useful on supporting our high streets, which tend to be older.

A 1999 report on US BIDs supported by PriceWaterhouseCoopers found there were just over 400 at that time. This means in just over a decade another 600 have been created and the model is still rapidly spreading in the USA. The report listed the common benefits of BIDs as being:

- Stable revenues and a plan of action.
- Independence, including putting the right people in place, making physical improvements, and owning and operating facilities.
- A forum that allows innovation to attract customers.[58]

The report summed up BIDs as being a 'management tool for downtown'. Reflecting this emphasis on continued management over time the report found that BIDs employed an average of eight people, (though this ranged from a single individual part-time to 150 people). For BID managers then 85% had a bachelor's degree or above, illustrating it was a skilled profession. BID managers work ranged across a whole series of areas from capital improvements, consumer marketing, maintenance, security and regulating public space. They were much more engaged over a longer period in a wider range of areas than UK BIDs.

Academics have found that BIDs in the USA have used various methods to boost their area. Some have heavily promoted residential development so as to strengthen local spending power and regenerate the area, reducing the negative effect of underused commercial space.[59] Others focus on the overall ability to create place-making and overall commercial strategy.[60] While some critics have raised concerns about the issue of political accountability, these have been addressed by annual reports and transparency, and also by requiring that BIDs are not simply created on an indefinite basis but can be removed or must be periodically renewed.[61]

It is unsurprising BIDs are reasonably uncontroversial among local communities given a study in New York found BIDs improve property values for the properties within the BID, and also have a smaller 'halo' effect on the surrounding area. BIDs appear to be able to regenerate a wider area than that they operate in, pushing up the value of properties in the surrounding area.[62] Most of the criticism has been that BIDs are 'undemocratic' in that they allow local retailers to take over some of the functions that have been recently the prerogative of the state.

Despite the positive contribution played by BIDs in regenerating areas, there are still retail destinations that do fail. BIDs are not a magic bullet. If a particular retail centre is simply too small, in the wrong place, difficult to beautify, the BID will struggle. All the evidence on BIDs is that they are a positive improvement, but that they cannot completely transform an area's prospects.

Policy and regulatory burdens on retailers

While the largest intervention in the retail sector is in planning, there are other significant regulatory burdens on retailers. According to HM Treasury: "*Retail is subject to a wider range of regulation than any other sector, and businesses report that the cumulative burden is a significant barrier to retail growth and lower prices for consumers.*[63] For example, there are at least 20 separate pieces of legislation on age-related sales

58 *Business Improvement Districts and Innovative Service Delivery*, J.Mitchell, School of Public Affairs, the City University of New York, supported by PriceWaterhouseCoopers, 1999

59 See for example *Who lives downtown*? Brookings Institution Working Paper. Washington, DC: Brookings Institute, 2005 and *Having a longer view on downtown living,* Journal of the American Planning Association 68, 2002, both by E.L. Birch

60 *The retail-revitalization nexus: the business improvement model in Canada and the United States*. In Business improvement districts: research, theories and controversies, Gopal-Agge, D. G., and Hoyt, L. 2007

61 *BIDs fare well: the democratic accountability of business improvement districts*. New York University Law Review 78, B.R. Hochleutner, 2003 and *A government for our time? Business improvement districts and urban governance*. Columbia Law Review 99 (2), R. Briffault, 1999

62 *The Impact of Business Improvement Districts on Property Values: Evidence from New York City Working Paper 07–01,* New York University, 2007

63 *UK Government Retail Growth Strategy*, Oxford Institute of Retail Management, March 2011

alone, with the enforcement regimes, penalties, licences and other procedures varying considerably from product to product.[64] Over 60% of SME retailers find regulation an obstacle to their business succeeding.[65] Some regulation is legitimate and necessary; e.g. age restrictions on goods like alcohol or tobacco. However, regulation must be proportionate. This was clear from submissions to the Coalition's 2011 Growth Review.[66] The Coalition set up the Red Tape Challenge on retail to involve the public and business owners in identifying needless regulations to be scrapped. Based on more than 9000 responses the Government produced a set of deregulatory proposals for the retail sector. These will:

- Consolidate over 12 pieces of consumer rights law to a single new piece of legislation.
- Simplify regulations retailers said were particularly burdensome, such as age verification on some restricted goods and licensing for low-risk products such as fly spray and toilet cleaner.
- Abolish symbolic cases of heavy-handed intervention, such as shops needing an alcohol licence to sell chocolate liqueurs.
- Remove redundant legislation, such as the war-time Trading with the Enemy Act and its 98 linked regulations, or rules around the safety of pencils and prams.[67]

As a direct result of this process there were changes to more than 160 different rules and regulations affecting retail, simplifying, amending or abolishing those unnecessarily burdensome, overly bureaucratic or simply redundant. This removed over half the 257 pieces of retail legislation under consideration, and simplified or improved at least 34 of the remainder.[68]

It is crucial to realise that onerous regulation is not just a burden to retailers, but a cost to consumers. When regulation becomes too onerous, the retailers succeeding may not be those who best serve customer needs, but those who tick the boxes on a regulatory spread sheet. Time and effort spent on unnecessary regulation distracts from the real job of serving consumers. The Better Regulation Taskforce (BRTF) suggested in 2004 the burden of government administration was a factor contributing to a difference in overall performance between large and small retailers. It found a group of village shopkeepers estimated government administration took up 3 to 5 working days a month.[69] This can mean a distorted market where small businesses find it difficult to compete.

Business rates have risen rapidly in recent years

Some argue that business rates are a major distortion in the current retail policy framework. Business rates have risen substantially in recent years. Business rates are calculated by applying a multiplier (e.g. 45p in the £1) to a business' total rateable value (the value of the property, so for example £10,000). The value and size of a property thus affect business rates, with larger and more valuable premises paying more than smaller less valuable premises. The multiplier in 2012/3 is 45.8p for every £1 in rateable value for most businesses, but 45p for every £1 in rateable value for small businesses.[70] It is important to note that this is not paid on the rent of the property but instead the market value of the property, even if empty.

64 *The Plan for Growth*, HM Treasury, March 2011

65 *The Right to Retail; Can localism save Britain's small retailers?* Op cit

66 *The Plan for Growth*, ibid

67 *Government axes retail red tape*, BIS press release, 28 July 2011

68 *Red Tape Challenge Sets Retailers Free From Regulations*, Red Tape Challenge, Cabinet Office website

69 *Driving Change*, Retail Strategy Group, April 2004

70 *FAQs: What are the current multipliers?*, Valuation Office Agency, available at their website

How increases in business rates are calculated is complex. The multiplier rises in line with RPI inflation each year for five years. At the end of each five year period, all properties are revalued. The rateable value of each property is increased but the multiplier falls back down. And then for another five years the multiplier rises but the rateable value remains the same. So in 2010/11 the multiplier fell from 48.5p to 41.4p in the pound but the rateable value of all properties rose, allowing the total tax take to increase. From 2010/11 to 2014/15 the multiplier will rise each year while the rateable value remains the same, until the next revaluation. The government has recently announced that it will be delaying the next revaluation, which should come into effect in 2015/16 until 2017, meaning rateable values will continue to be set with reference to 2008 values.

Table 6: Business rates in England[71]

	No. of locally rateable properties	Business rates revenue 2012/3	BR per property
England	1,775,000	£25bn	£14,000

Business rates are high per property. As is shown in the table above, the rough average rate per commercial property in 2012/13 would be £14,000. To put this into context, the average band D council tax property pays £1,444.[72] Of course, there are a number of large stores which might be thought to push the business rate up compared to the average council tax, but this cannot explain why council taxes are, on average ten times lower than business rates. It is a distortion explained by political pressure to tax business premises much higher than residential premises.

Business rates in recent years have risen quickly due to higher RPI inflation. But this inflation has often been in areas like gas or electricity, additional burdens to retailers, while prices of goods retailers themselves sell (e.g. clothing) have risen more slowly. So for example, in 2011 fuel and light prices in the CPI index rose by 7.6% in 2012, while the price of household consumable goods rose by just 3.6%, half that rate.[73] So retailers have lost out twice. Firstly from higher inflation in costs that many cannot pass on, on and secondly from higher business rates themselves. The problem at present is that constant rise in rates helps with the current very high deficit – a 4% increase in business rates would raise approximately £1 billion more for the Treasury.

The exact level of rates is reduced for many as eligible small businesses with rateable values of up to £12,000 receive significant reductions in their business rates, including a discount of 100% for those with a rateable value of less than £6,000.[74] The Coalition also allowed businesses to defer some of the most recent rise in business rates over a longer payment period in response to concerns from the sector. The government believes "*Over half a million small businesses will benefit, with 330,000 paying no rates for a year.*"[75] Despite this, it is clear that business rates have risen quickly at a time when the retail sector as a whole is struggling. The British Retail Consortium argues a disproportionate quarter of all business rates are paid by retail as it is a property intensive industry, putting the bill at over £6 billion a year for the retail sector, a substantial burden.[76]

71 *Central and Local Rating Lists: Summary*, Valuation Office Agency, available online. Revenue calculated by applying multiplier to total rateable value of properties in England

72 *Table 1: Average council tax and % change 2003–04 to 2012–13 (a)*, DCLG, available at Gov.uk website

73 *RPI: Percentage change over 12 months – Fuel and Light* and *RPI: Percentage change over 12 months – Household consumables; Table Publication: MM23 Consumer Price Indices*, Office for National Statistics

74 *Business rates Standard Note; SN/PC/06247*, House of Commons Library, 2013

75 *Small Business Rate Relief; House of Commons Standard Note SN04998*, House of Commons Library, July 2012

76 *BRC Policies and Issues; Local Government*, available at their website

But the main issue on the high street is not business rates or unfair taxation but shifting consumer needs

Due to high business rates, it has been argued that large retailers with physical footprints are struggling because of taxation, and business rates in particular. A variation on this is that there is 'unfair' tax competition from the internet and companies who are evading paying their fair share of taxes. Amazon is a prime example of an internet based company that generates billions in sales, yet pays little corporation tax. But Starbucks, whose physical presence on high streets is obvious, have also paid next to nothing in corporation tax for years. So this argument is not clear-cut.

Business rates are an issue, but given a retail market worth some £300 billion, the £6 billion the BRC claim accounts for around 2% of all physical retailers' gross sales. This is clearly not the biggest factor in play. Internet retailers, even exclusively internet retailers, will still have a large physical footprint. Head and branch offices, warehouses and so on will all still exist and pay business rates, even if there are no physical stores. So they will pay some of this £6 billion. In addition, even if business rates were reduced, this might simply result in higher rents rather than lower overall costs for business.

The impact of taxation across the retail sector is also more complex than simply focusing on business rates. For example, out-of-town centres are often more car-intensive. Internet deliveries may also be more car intensive. Since 60% of the cost of petrol is due to taxation,[77] it could be argued that they are unfairly penalised by petrol taxes. So business rates are not a solitary distortion in an otherwise level playing field. Almost all retailers will sign up to a campaign to reduce business rates and shift taxation to other areas. This is not necessarily a sign it is the most important issue. It is just something the retail sector can agree on.

"Almost all retailers will sign up to a campaign to reduce business rates and shift taxation to other areas. This is not necessarily a sign it is the most important issue. It is just something the retail sector can agree on"

The main issue for the retail sector is the rise of the internet, and the changes this has created. In response, shopping has to change in order to become more of a leisure activity. Retailers have suffered because of the scale of recent business rate rises in a difficult economic climate. But it is not the root of their problems.

77 *Taxation of road fuels; House of Commons Standard Note SN824*, House of Commons Library, March 2013

3

Hidden Retail Drivers; Location, Ownership and Incentives

Location, location, location is key to retail success

The location and attributes of sites are crucial to the success or failure of physical retailing. The government convened Retail Strategy Group advised in their 2004 *Driving Change* report, note that "*retail performance is critically dependent on "location, location, location*".[78] Cardiff University's Planning and Geography Department notes that "*planning policy has a significant impact on retailers' competitiveness … Planning policy has a direct impact on the availability and cost of property and that in turn impacts on business performance*".[79]

This location effect a proprty benefits from is about the wider impact of the neighbourhood in which the store is located in, and the overall experience the neighbourhood helps to create. Due to the shift identified earlier, location is becoming even more important. Factors beyond the control of the retailer have a huge impact on their success. Transport is one example. Most local authorities are trying to reduce car use. Yet car ownership has risen in recent years, with the past two decades seeing the number of households with a car rise from 65% to 75% and the number with two or more rise from 18% to 32%.[80] In 2007, 78% of our journey miles were travelled by car (as a driver or passenger).[81] This has remained roughly stable in recent years, even though the price of unleaded petrol rose from 53p a litre in 1995 to 97p by 2007, and £1.36 by 2011.[82] In a longer period of stagnation than the 1930s Depression, current overexcitement about flat lining car journeys should not detract from the fact most people in Britain want to use their car to shop.

The Federation of Small Business 2008 Parking Manifesto argued "*too many town centres across the country bear the scars of poorly thought out parking policy*". It noted a study which showed that "*quality of and access to parking provision within a five minute walk of main shopping streets has a significant impact on store performance*".[83] Other work also shows that UK consumers tend to prefer to use their car.[84] Our YouGov polling found that good car access and parking was the second most important issue for consumers, with 57% citing it as important.[85] Public transport is important, particularly in large cities (e.g. London Westfield centres are close to London Underground stations). But good public transport came a much lower fifth in the shoppers' priorities, and good public transport links should go along with having car access and sufficient parking.

However, this has not prevented many planners from refusing to acknowledge the importance of car use. Indeed, national policy in the 2000s pushed heavily

78 *Driving Change*, op cit

79 *The Retail Development Process*, Guy CM, London Routledge 1994

80 *Transport, Chapter 12, Social Trends 40; 2010 Edition*, ONS, 2010

81 *National Travel Survey, Table NTS0305, distance travelled by mode*, DfT, available at their website

82 *Fuel Prices Historic Data,* UK Petroleum Industry Association, available at their website

83 *Parking; Policies for sustainable communities*, Federation of Small Business, September 2008

84 *Car Dependency Scorecard 2011,* Campaign for Better Transport (2011)

85 *YouGov polling for Policy Exchange*, Op Cit

against accepting consumer preference for car use. The last Government's planning policy statement 6 (planning for town centres), noted that the goal was "*in terms of car parking: reduced or reconfigured car parking areas*",[86] while planning policy guidance 13 (transport) noted that planners should "*use parking policies, alongside other planning and transport measures, to promote sustainable transport choices and reduce reliance on the car for work and other journeys;*"[87] This often led to councils refusing to allow enough car parking space and/or charging very high fees for town centre parking.

The current National Planning Policy Framework is less stark, stating that councils "*should set appropriate parking charges that do not undermine the vitality of town centres*" but also stating that "*the transport system needs to be balanced in favour of sustainable transport modes*" (which excludes car use).[88] Given the belief in the planning community that car use is a negative to be reduced and the current poor state of council finances, this has not resulted in any major change of emphasis or reduction in hostility to car use in many local authorities.

But the neighbourhood effect is not just transport, or indeed any other issue. It is about the total consumer experience. For example, there is sometimes an issue of an over-concentration of cheap stores on a particular high street. This can further escalate an incipient local spiral of decline. Higher income customers move out, the lack of variety discourages casual shoppers, and the overall level of local spending falls. This is hugely important. A good retail mix was ranked as the number one issue for people in the polling YouGov undertook.[89] As Portas notes, "*When a high street has too much of one thing it tips the balance of the location and inevitably puts off potential retailers and investors. Too many charity shops on one high street are an obvious example of this. Funnily enough, too many fried chicken shops have the same effect.*"[90] This is not just about snobbery. There is a genuine economic problem if certain shops are reducing the footfall of their neighbours rather than boosting it. Lavatories are another key issue for many shoppers that local authorities often neglect.

So, councils often neglect the basic building blocks of success. One reason why Business Improvement Districts have been successful with their 'crime and grime' agenda and have helped encourage people back to their area is that BIDs focus on the key issues for consumers. The successful regeneration of shopping areas in areas such as Manchester or Liverpool is due to the creation of clean and safe spaces. The first issue is cleanliness and safety. Bar a few groups such as some young trendy urban dwellers, shoppers will not go to anywhere they perceive as unclean or unsafe.

Single ownership allows clearer control over critical issues

The planning system and its myriad restrictions do a poorer job at co-ordinating retailers on a traditional high street compared to single ownership centres. The British Property Federation's submission to the Portas Review noted "*Shopping centres and other out-of-town formats often have the advantage of single ownership. The landlord is able to create an identity for the centre, choose the retail mix, manage the centre so that it reinforces the brand, co-ordinate marketing and refresh the centre through regular reinvestment. Single ownership is rare on our high streets, but that shouldn't stop some of these elements being replicated.*"[91] The Director of Westfield noted to this author that high streets "*have no one to take the long term strategic decisions*".[92] Three main sets of advantage accrue to those who own large shopping centres, or high streets with a single owner and management teams. These are:

86 *Planning Policy Statement 6, Planning for Town Centres*, ODPM, 2005

87 *Planning Policy Guidance 13;Transport*, ODPM, 2001

88 *National Planning Policy Framework*, Op cit

89 *YouGov Polling for Policy Exchange*, Op cit

90 *The Portas Review; An independent review into the future of our high streets*, Op cit

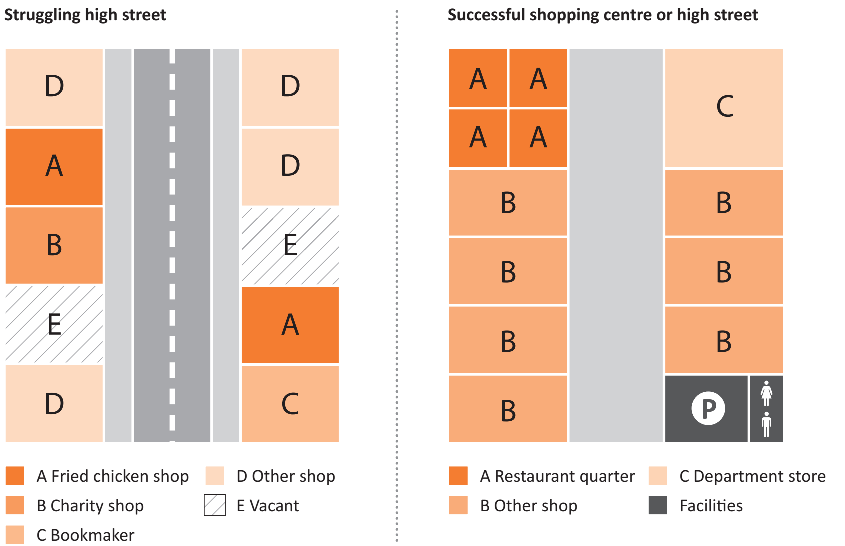
91 *The Portas Review; An independent review into the future of our high streets*, Ibid

92 Author's discussion with John Burton, Director of Development at Westfield

- **Strong control over issues like parking, communal areas, and lavatories.** The single owner has a much stronger economic incentive to create desirable communal spaces or the right level of parking at an affordable price than a council. Issues such as clean and accessible lavatories are crucial for an elderly population that wants a pleasant shopping experience.
- **Strong control over vacancies and 'retail mix'.** If a retail shop closes down in a shopping centre, the incentive to find a new tenant is much stronger for the owner than the council, as the overall experience of the centre will be damaged by too many vacant shops. The issue of over-concentration of particular shops is also better dealt with by the long-term landlord.
- **Strong external and internal branding.** Because retailing is increasingly about an 'experience', the ability of a particular centre to promote this is critical. By creating both an attractive external image and an attractive environment, this creates a strong brand.

Of course, high streets that are attractive destinations in their own right and are run by a good local council benefit from many of these advantages. But the less attractive and badly run high streets do not. The diagram below compares a struggling high street run by an ineffectual council and a successful single owner high street or shopping centre, with clear differences between the two.

Figure 2: Struggling high street vs successful shopping centre or high street



The struggling high street sees half its stores as charity stores, fried chicken shops or bookmakers. It is not pedestrianised, with narrow pavements making it feel unsafe and crowded. There are no lavatories and parking is not provided. The only social spaces are fried chicken stores. By contrast, the successful shopping centre or high street is pedestriansed, with parking and lavatories provided. Pedestrians feel safe and there is a restaurant quarter for dining. The stores will have been selected to fit together and create an effective and attractive selection.

For successful retail centres the factors all intertwine and support one another. Strong branding is reinforced by ample parking and clean streets. This is backed up by right retail mix for customers who can find what they want. The whole is greater than the sum of its parts. For a struggling high street, the reverse is true. While some elements or shops may be a success, if the council is a bad manager this will make their job very difficult and the overall experience much less pleasant. Of course in reality, most retail centres fall between these two extremes. But they illustrate different possible outcomes. Moreover, high vacancy levels on many high streets and the growth of fast food and charity shops illustrates many failing high streets are closer to the first model than the second.

Government planners' have the wrong incentives to make a success of local high streets

At present, the high street is largely in the hands of council planners. There is clearly a need for plans, planners, and planning. People need to co-ordinate infrastructure on a large scale, while retailers need to make flexible plans for the coming years. Yet the current system often fails. Government planners decide how an area looks, but private agents must make that a reality.

This can lead to failures when planners find that retailers do not act as planners would wish them to, or when government planners make errors. Of course, private agents make mistakes, but they also have an incentive to change plans rapidly, and sensible retailers want flexible plans given market uncertainty. Government planners have no such incentive. A row of shops with half the units vacant does not have the same urgency as it would for a commercial landlord, or even the nearby shop owners whose business is hit by vacant properties. Yougov polling found that by a majority of 55% to 39%, people thought that their council did a bad job of attracting retailers and getting rid of vacant shops.[93] In the Midlands and North over 60% of people thought that their council did a bad job.

This discrepancy between traditional high streets and shopping centres is what Portas noted and complained of. But the answer cannot be to shut down competition yet further. Even if this was deemed desirable, the rise of the internet means poorly run high streets cannot simply try to shut down alternative retail options.

Sometimes what can seem like a minor issue to councils can be critical for shoppers, particularly specific groups. Many reading this report may be surprised that lavatory availability is the third most important issue for shoppers, particularly for the elderly. (This author certainly was surprised). But the British Toilet Association has used Freedom of Information requests to show four out of ten public lavatories have closed in recent years.[94]

Government planners often sub-ordinate retail viability to other concerns. The retail centre Bluewater has over 13,000 free car spaces for its 154,000 square metres. The owners did this because it was what the consumers wanted. Yet such an approach is illegal under subsequent restrictive legal maximums that would have permitted a maximum of between 7,700 and 11,000 car spaces depending on the level of food/non-food retail proposed. This shows how the system can be captured and used to push particular points of view. Without controls, business would merely adapt to their customers' preferences, and seek to provide a range of options; buses, cars, train or tube.

93 *YouGov polling for Policy Exchange*, Op cit

94 *Where have all our public loos gone? How the number of public conveniences has dropped 40% in ten years,* Daily Mail, 20th August 2013

Much of this is an ideological capture of the planning system. Anna Minton, a journalist who investigated the regeneration of many areas through BIDs, notes what BIDs "*all have in common is the emphasis on security and safety*".[95] She argued that the BIDs were sterile and unattractive. The reason that BIDs give priority to security and safety is that for most people, this is a crucial element of the shopping experience. And the fact BIDs are very popular and seen by retailers as being worth the additional levy confirms they serve people's real needs. Critics focus on trying to capture retail centres and then trying to force customers to behave as they think other people should.

Unfortunately the existing BID structures have limited powers to fight such ideological capture. As noted, they only include the tenants: no landlords. They do not have the range of powers that the single-owner landlord has. They have some potential to fix minor issues, but they are not yet strong enough to solve high streets' issues.

Bad debts in the retail sector and a North/South divide

One additional problem with the current retail sector is that during the height of the financial bubble, many bad decisions were made. As a result, many developers and banks are now left with sites that cannot justify their purchase price. This divide is compounded in some cases by debt. Retailers had been loaded up with debt that is unsustainable given falling sales. In some areas, this issue is less of a problem, because the level of residential rents is higher than retail ones. This means sites can be converted to housing. While there may be some costs involved, this is a limited problem.

In discussions with sector experts such as Zolfo Cooper, a body that help advise and restructure companies in financial difficulties, it emerged that in broad figures perhaps 30% of retail properties would be more profitable as housing. For another 40%, the gap is not particularly notable, especially if the conversion is handled well. It is only in the final 30% that the retail value is notably higher than the residential.[96] (This is all including the fact that the tax liability for residential properties is much lower than an equivalent commercial property). This divide tends to follow economic activity, with areas of lower residential property values in more deprived areas the sites where it is not profitable to convert retail space to homes. But for many properties this is feasible, although in some cases this might involve small losses on the part of the landlord.

However, there was agreement there is an increasing level of realism amongst those involved in commercial property and retail that the recent changes are not just due to a cyclical downturn. For those who own or have invested in properties outside the major retail centres there will have to be a write-down of debt and a clearing process. Of course, allowing some properties to switch use in an area will raise rents by reducing supply, and since it is likely that the least profitable buildings switch uses, this would mean other buildings would see their value rise for landlords. What is necessary from policymakers is a mechanism to facilitate this and to allow conversion to other uses.

95 P29, *Ground Control*, Anna Minton, 2009

96 Conversations with Zolfo Cooper and others

4
Town Centre First Fails Our Society and Economy

Town Centre First: Weakens the economy

The academic economic literature is quite clear. Town Centre First is an economic failure. Research conducted on the effect of land-use regulation in restricting retail development, especially large-format stores, finds the consequence is losses to retail productivity and higher prices. In the late 1990s US retail productivity growth rose by 4.5% a year, while UK retail productivity growth fell by 1.9% a year: a substantive 6.4% annual difference.[97] Other studies found a similar gap in retail productivity, largely due to the introduction of tighter land regulation in this period.[98]

In terms of store productivity, LSE research found the productivity of a major supermarket chain was reduced by 25% due to Town Centre First alone.[99] Consistent with this thesis, in the US Foster (2002) found that productivity growth in retail stores arises from the opening of new stores rather than from reconfigurations of existing ones.[100] A follow-up study, this time on a clothing retailer, identified a bigger 46% loss to productivity arising from the Town Centre First policy.[101] These estimates, although large, are likely to under-represent the true magnitude of the problem since these papers did not try to identify all potential losses but focused on two areas; store size and configuration and the micro-location choice of the store. Restrictions on large-format stores prevent economies of scale and scope in labour, overhead and logistics, but they may also have further effects as they reduce the flexibility of the store to experiment with new layouts, product displays, 'retail-tainment' where stores use entertainment to draw in customers, and may preclude adequate parking provision. The Competition Commission found most UK stores operate below efficient scale.[102] Across the UK as a whole, Haskel and Sadun (2012) estimate that 40% of the slowdown in UK retail productivity growth seen since Town Centre First can be attributed to just the reduction in new store size.[103] Excessive restrictions may result in stores located in relatively inconvenient sites with tepid demand or places that cannot cope with modern requirements around stock management.

Town Centre First may also have had a general anti-competitive effect, reducing the ability of aspiring competitors to enter concentrated markets. The Northern-based food retailers Asda and Morrisons have been unable to expand as quickly as they would like in the South due to the lack of available sites which could accommodate stores of an acceptable scale. Some supermarkets have been criticised for the extensive portfolio of large developable property sites in key

97 *The Case of Missing Productivity Growth, or Does Information Technology Explain Why Productivity Accelerated in the US but Not in the UK? NBER Macroeconomics Annual, 18(1)*, Basu et al, 2003

98 For a discussion of how Europe lost out in terms of productivity due to regulatory barriers blocking efficient big-box stores see; *Why was Europe Left at the Station when America's Productivity Locomotive Departed? NBER Working Paper, No. 10661*, R. Gordon, 2004

99 *Evaluating the Effects of Planning Policy on the Retail Sector: Or do Town Centre First Policies Deliver the Goods? SERC Discussion Papers, SERCDP0066*. P Cheshire, et al. Spatial Economics Research Centre, LSE, 2011

100 *The Link between Aggregate and Micro Productivity Growth: Evidence from Retail Trade. NBER Working Paper No.1920*, Foster et al, 2002

101 *Regulating Retail to Town Centres: The Price Paid in Productivity*. P Cheshire et al, Spatial Economics Research Centre, LSE, 2012

102 *Supermarkets: A Report on the Supply of Groceries from Multiple Stores in the United Kingdom*, Competition Commission, 2000

103 *Regulation and UK Retailing Productivity: Evidence from Microdata; Economica, 79(3): 425–448*, J Haskell and R Sadun, 2012

in-centre locations, which may be maintained to prevent competitors from entering these markets. Two Competition Commission reports determined that although competition for grocery trade is broadly robust, supermarkets were engaging in price discrimination in different geographical areas in response to varying local competition.[104] Furthermore, the reports expressed concern about the lack of local competition and the limited choice of supermarket chains for consumers in some areas.

The loss of productivity so many studies find is unsurprising. Retailers go to great lengths to locate in efficient sites and choose an optimal size and location. Policies interfering with this create a second best outcome. None of this assumes a perfect market, rather a common sense process of real world trial and error. Anyone who tried to deny that Town Centre First reduced productivity would have to assert that retailers were run by incompetent managers and owned by incompetent investors, while planners made consistently better choices with fewer incentives or access to data.

There is a strand of literature sometimes cited as showing benefits from Town Centre First.[105] Some studies compare town-centres which have introduced a large new retail store with those that did not, and conclude larger stores in the centre of town may have had some improvement on town centre viability. This is then taken as showing the inherent desirability of Town Centre First. This may show that a large store can benefit town centres, but it assumes that protecting town centres is a positive policy in itself. No academic studies find a beneficial effect on retail productivity or price competitiveness due to increased retail planning restrictiveness and Town Centre First.

An occasionally spurious economic 'benefit' cited for Town Centre First is that it facilitates 'local spending'. But real economic growth comes from productivity gains, not the circulation of spending in a smaller area. If two people cut themselves off from the World and only traded with each other there would be 100% local trade, but they would both rapidly move to a state of abject poverty. Higher living standards come from higher productivity, not recirculating money in a narrower area.

The system does not protect independent stores but just inefficient ones

Another argument put forward for our current planning system is that it protects small independent shops. Yet one major study finds that the survivability of small-format independent retailers benefits from larger stores opening in the same area. It may be that the higher productivity afforded by larger out-of-town locations increases the real spending potential of consumers, allowing them to visit additional stores.[106] Current policies have not managed to prevent the continuing decline of smaller stores. The Portas Review found the number of town-centre stores fell by almost 15,000 between 2000 and 2009, with an estimated further 10,000 losses over the past couple of years.[107] Current policy protects inefficient stores, not necessarily independent ones. There are policies that support independent stores, most notably pruning unnecessary regulation, but Town Centre First is not one of them.

Unless the state is literally prepared to force people to shop in particular stores, or refuses to allow any new entrants into an area, it cannot save inefficient

104 See *Supermarkets: A Report on the Supply of Groceries from Multiple Stores in the United Kingdom,* Ibid, and *The Supply of Groceries in the UK Market Investigation*, Competition Commission, 2008

105 See for a good example, *Extending the Competition Commission's findings on Entry and Exit of Small Stores in British High Streets: Implications for Competition and Planning Policy. Environment and Planning A, 41(9),* Wrigley, N et al, 2009

106 *Does Planning Regulation Protect Independent Retailers?* R. Sadun, 2011

107 *The Portas Review; An independent review into the future of our high streets*, Op cit

independent shops. However, by pushing large retailers to use smaller stores we end up both with heavy retail concentration of large-format chain stores in town-centres *and* inefficient stores. Even if planners refused entry to chain retailers, the rise of internet shopping makes such intervention pointless. Unless planners intend to regulate people's home use of the internet, they cannot force people to use independent retailers. We need to stop pretending that small, inefficient stores could be protected by anything short of a direct intervention. Such intervention would distort the economy and lower people's income even further.

Town Centre First: Hurts the poorest and squeezed middle

As retailers do not have abnormally high profits, the lower levels of productivity caused by Town Centre First translate into higher prices and reduced real incomes for consumers.[108] Low income groups are hit especially hard by this state of affairs as food and other basic necessities such as clothing make up a significantly larger proportion of their total spend than for higher income groups, as the table below shows. Town Centre First policy hits those on low incomes hardest. Middle income groups also lose income they cannot easily afford.

The proportion of household income spent on food and clothing increases nearly fivefold as you move from the richest 10% of households to the poorest 10% of households. Town Centre First and other planning polices thus act as a highly regressive tax. As the table below shows, if a 25% loss in productivity is passed to consumers, the very poorest are roughly 7% worse off just due to higher food and clothing costs. Clothes and food make up 28% of their budget, and Town Centre First increases these goods' cost by 25%. In reality, as the loss of productivity is likely much higher across a wider range of goods and services, the income loss is likely to be even higher. If lost productivity is 46%, as one study finds, this means income losses of over 12% just due to food and clothing costs.

The loss of income is almost certainly felt as keenly by the squeezed middle as the poorest, as they lose almost £1,000 a year due to these policies. Slightly less as a percentage, but even more as an absolute loss of income at a time when their incomes are already hugely under pressure.

Table 7: Cost of lower retail productivity for different groups[109]

Deciles (lowest to highest income)	Share of income spent on food and clothing	Share of income lost if 25% lower productivity on food/clothing	Annual loss of income due to lower retail productivity
1	28%	7%	£572
2	19%	5%	£668
3	17%	4%	£733
4	15%	4%	£797
5	14%	3.5%	£900
6	12%	3%	£956
7	10%	2.5%	£1026
8	10%	2.5%	£1023
9	9%	2%	£1064
10	6%	1.5%	£1096

108 On the issue of profits see for example, *Entry Barriers in Retail Trade," Economic Journal, Royal Economic Society, vol. 121*, Schivardi and Viviano, 2011. *The Supply of Groceries in the UK Market Investigation* already referenced stated that, "consumers are receiving the benefits of competition"

109 Sources: *Living Costs and Food Survey 2011*; ONS and Family Spending 2011, Table A6, ONS. To obtain the final figure in pounds income loss is cross referenced with average decile incomes in *ONS TABLE 14: Average incomes, taxes and benefits by decile groups of ALL households, 2011/12*, ONS, 2013 available online

Town Centre First is proposed as a socially-minded policy. In reality it lowers the real income for all, particularly the poorest in our society, and has an effect on real levels of inequality. It may not raise the price of a holiday in Tuscany, but it has a pretty steep impact on new clothes for school or the family meal.

Even if poorer shoppers try to find larger stores they are worst placed to do so given they are least likely to be able to travel. Often their mobility is limited yet further by retail policy. For example, if car parking in out of town or larger high street centres is limited, the price of parking will rise. This in turn will be hardest bear for those on low incomes, who will be first priced out. So the poorest will be forced to travel to inefficient stores to pay more of their limited income for more expensive goods – all in the name of fairness. Meanwhile public policy focuses on ensuring public transport to the town centre. This means funnelling the poorest to the most expensive and least productive stores. Again this all seems back to front unless you assume that supporting town centres is the purpose of retail policy.

Town Centre First: Discourages social interaction

A common argument is that despite economic costs, Town Centre First is a positive *social* policy. This argument was put succinctly by British Council of Shopping Centres President Peter Drummond, "*High streets and shopping centres fulfil leisure and community needs as well as retailing ones*".[110] The Portas Review supported this view. It said "*Historically, high streets looked after themselves, and brought immense social as well as economic benefits to British towns. But so many of us leave our communities to do our shopping and our socialising these days…We no longer value human interaction, socialising or being part of something bigger than ourselves.*"[111]

> "The poorest will be forced to travel to inefficient stores to pay more of their limited income for more expensive goods – all in the name of fairness"

Portas lamented that "*We have seen a radical and profound shift in our values. As a nation it seems we no longer value the place we live in or the people we live alongside.*"[112] But we do value our neighbourhood, and our neighbours. What we are seeing is a change in social activity not a reduction in the levels of social activity. When people travel to out-of-town centres, they are twice as likely to go with others as to go alone. The idea that a solitary trudge to the local high street is intrinsically a positive activity which promotes social cohesion is quite mistaken. People still often make retail trips as part of a group, but these trips tend to be to larger centres and out-of-town centres that can provide a variety of experiences.

The table below shows that the underpinning of Town Centre First is back to front. A policy which claims to be about supporting social activity actually supports the less sociable retailing.

Table 8: How social are high street and out-of-town retail?[113]

Thinking back to when you last when shopping …

	Out-of-town	On the high street
Went with friends or family	68	49
Went by myself	32	51

110 *BCSC tells PM to take more action on High Streets*, Estates Gazette, 11th September 2012

111 *The Portas Review; An independent review into the future of our high streets*, Op cit

112 *The Portas Review; An independent review into the future of our high streets*, Ibid

113 *YouGov polling for Policy Exchange*, op cit

Town Centre First assumes that social interactions involving shopping are good on the high street, but bad in out-of-town centres. If we are truly concerned with social interaction, we should create as many spaces as possible where social interaction occurs. If the Government wants to protect retail's social aspect it should be focusing on policies that allow offline retailers to create attractive experiences. The death of the need for physical retailing makes the social aspect more important.

The physical spaces that survive as retail destinations will be places people want to go, often with their friends and family. If we are concerned with the loss of social interaction, it is the rise of internet shopping we should be concerned with, not out-of-town centres. The large and arbitrary costs of Town Centre First push people toward the solitary world of internet shopping.

People's lives have changed and so shopping has changed

Current policy tries to ignore the demographic changes that are driving the shifts within retailing, or dismiss them as greater selfishness. This is a mistake. The move away from high street retail does not mean the end of social activity or the end of the combination of retailing and social activity. For thousands of years, people have craved social interaction with others and created spaces for this purpose alongside trading activities. Two thousand years ago the Romans had their Forum. The medieval period had market towns. One hundred years ago high streets predominated. Retail is by its nature a social activity and so retail spaces almost invariably became a social hub. The reason retail changes is because society changes and technology changes.

The average shopper in the 1950s was a healthy housewife with no car, and with time to walk into town and to go from shop to shop. Even if she would have preferred not to, she had to make multiple trips each week, as she probably did not have a fridge or freezer at home. There would be little money for other holiday and leisure trips. Today, the average shopper is likely to be a working parent, or someone older who might struggle with groceries. There is a fridge and freezer at home, a car to help with transporting groceries. People prefer to spend their time and money on things apart from multiple trips to the local high street.

Table 9: Number of residents aged over 60 [114]

1951	2010	2030 (predicted)
7.9 million	19 million	28 million

Society is becoming older, and people value their time more. As the table shows, the number of UK residents over 60 will roughly quadruple between 1951 and 2030. Our older population is often unwilling or unable to do what planners want. Car use and lavatories are even more necessary. Female employment has grown steadily. In 1952, the percentage of women in the workforce was 46%, but by 2008 this had reached 70% and was still rising.[115] There has also been a steady increase in single parents, who have to juggle childcare and work. Car ownership has risen steadily, allowing people to make a single large trip and then use their car to take their shopping home.

114 1950 figure from P14, *Compendium of Health Statistics*, Emma Hawe, 2010. 2030 figure from *National Population Projections, 2010 Based Statistical Bulletin*, ONS, 2011

115 From OECD *Labour Force Statistics* database

No politician would argue that we should stop using refrigerators, tell working mothers to quit their jobs, tell the elderly to abandon their cars, or tell us how to spend their leisure time. But free choice is the driver of changing retail patterns, including out-of-town and internet retailing. As people's lives change, so must retail. Town Centre First indirectly assumes that it is the role of politicians to tell us how to live our lives, ignoring the demographic changes that are driving retailing. If we do not create new retail hubs that are suitable for most people's needs, this will damage our social fabric rather than enhance it.

Town Centre First: Not supporting environmental and transport objectives

One final presupposed justification for Town Centre First is environmental objectives.[116] Reorienting the retail focus of the town to its centre maintains access to shops for households which lack cars and reduces overall energy use and therefore the town's carbon footprint. However, various academics have shown why Town Centre First may achieve the opposite.[117] The local population may be distributed in a way the edge of a town or city rather than the core is easier for most shoppers to reach (e.g. if there are smaller satellite towns or villages nearby). Trips to the centre will tend to be made in more congested conditions, increasing energy use per mile as shoppers compete for road space with commuters. The frequency of shopping trips may also increase as the size of retail outlets is reduced. Smaller in-centre stores require more frequent re-stocking, and town-centre locations imply longer distances from motorways and distribution centres, and again, more congested conditions. Given all this and in the absence of data, claims that Town Centre First reduces total energy use by consumers and producers in the retail sector are at best exaggerated. It may even be that Town Centre First increases emissions. A policy to increase public transport services to out-of-town retail locations is a better way to cut carbon emissions, and would do so without associated productivity losses.

Lack of understanding of overseas retailing

One final issue is that current UK policy is sometimes discussed with the background idea that other countries have a different (and often implied a better) way of shopping. Consider the following sentence from an article about French retail policy reform. Reform had to be careful as it could potentially damage "*the small shops which are a cornerstone of the French way of life*".[118] This background assumption is simply false. The land of the giant retailer Carrefour saw supermarkets take 28% of the retail market and hypermarkets another 33% as early as 1997, giving supermarkets 61% of the market share over fifteen years ago.[119] France's image as a Gaullist paradise of small traders might have been true in the 1950s but is decades out of date. It is a misconception which perhaps remains due to affluent visits to rustic areas. But it is the equivalent of the French forming their view of England solely by reference to those who spend their weekends in the Cotswolds. Across the world, people want the same; quality, choice, experience and convenience. Retail must respond. There is no right or wrong way to shop, and the British should be free to shop as they want.

116 *Policy Evaluation of the Effectiveness of PPG6*, Office of the Deputy Prime Minister, 2004

117 *Evaluating the Effects of Planning Policy on the Retail Sector: Or do Town Centre First Policies Deliver the Goods?*, Op cit and *The Challenges of Attracting Investment back to the High Street*, Op cit

118 *French shops face supermarket squeeze*, BBC News, 27 May 2008

119 *Buyer Power and Competition in European Retailing*, Roger Clark et al, 2002

Box 3: Urban renewal: Demographics not policy

Town Centre First supporters, both big stakeholders and big business, like to claim it has been an unalloyed success. Consider the quote from the House of Commons' DCLG Select Committee on what they were told by witnesses about Town Centre First; "*The Town Centre First policy has enjoyed widespread support from businesses as well as local authorities, and the certainty it provides to developers has been an important springboard for councils to achieve town centre regeneration*".[120]

Town Centre First has not been key to urban regeneration. For a start, the main driver for urban growth in England is rising immigration. Between 2000/1 and 2007/8, the high point of the UK's urban renaissance, internal migration away from 'major urban' areas was over 900,000, with people moving in greatest numbers to more rural areas.[121]

In terms of town centre regeneration, since 1985 the UK economy as a whole has grown by 76%,[122] student numbers have nearly tripled from 937,000 in 1985–86 to 2.5 million in 2006–07,[123] and the average age of first marriage rose from 23.1 in 1981 to 29.9 in 2008 for women and from 25.4 in 1981 to 32.1 in 2008 for men,[124] and 75% of those aged 16–29 do not live with a partner.[125] A recent study of inner-city living highlights these trends: "*Most city centre residents are young and single, without children. A lot of them are students, some are professionals*."[126] These factors have regenerated our inner cities, not Town Centre First. The USA's supposedly anti-urban policies have seen the proportion living in metropolitan areas of over 1 million rise from 50% to 55% of the population between 1990 and 2009.[127] Western demographics are regenerating most urban cores.

Policies work where they follow people's desires. Core urban regeneration, just like the difficulties of many high streets is the result of people's choices. Policies claimed to succeed or fail due the wisdom of policymakers are largely determined due to how far they complement or oppose larger social change. Policymakers sometimes need to accept the limits of their powers, not see their hand behind each and every shift.

120 *DCLG Select Committee Eighth Report; The National Planning Policy Framework*, HMSO, 2011

121 *Internal migration with the UK during the year to June*, ONS, available at their website

122 *Real Time GDP database*, ONS, available at their website

123 *Review of higher education finance and pay data*, Joint Negotiating Committee for Higher Education Staff, 2008

124 *Marriages in England and Wales 2009*, ONS, 2011

125 *Household and Families*, *Chapter 2, Social Trends 40*, ONS, 2010

126 Nathan M and Unwin C, *City People: city centre living in the UK*, Centre for Cities, 2006

127 1990 data from *Bourne L, Urban Growth and Population Redistribution in North America: A Diverse and Unequal Landscape*, Centre for Urban and Community Studies and 2009 data based on US census data

5

We Must Listen to Customers Not Try to Control Them

Current policies have created high levels of vacant and derelict shops and retail sites

Current policies have not succeeded. They have pushed up prices and limited choice and competition. They have also created the high vacancy rates discussed earlier. The Local Data Company, which assesses thousands of shops in hundreds of retail sites, found that vacancy rates hit 14.6% in June 2012.[128] By comparison the level of empty buildings in the residential sector is just 3%.[129] The current data shows in mid-2012 there were over 23,000 empty shops in England, and this figure is likely to rise further.[130] As noted before, the figure is even bleaker in places. For example, Margate, which had the highest level of vacancies in the country, had a vacancy rate of 36%, while the largest major centre, Nottingham, had a vacancy rate of 31%.[131]

These vacancy rates will increase if the internet continues to rise as a share of sales even if strong economic growth returns in the next few years. Many shops are simply in the wrong place and are unlikely to return to viability as the retail landscape restructures itself. The inflexibility of the current system is not a benefit but a cost. The pace of change in the retail industry is out-stripping the ability and willingness of planners to adapt. Councils are afraid to shut down high streets or allow large scale change of use from retail, which could be seen as condemning high streets. Many people think that their local council does a bad job of recycling empty shops into useful purposes.

Table 10: How would you rate your local high street on attracting retailers and getting rid of empty and boarded up shops? [132]

Region	London	Rest of South	Midlands / Wales	North
Good	49	45	35	31
Bad	47	49	60	62
Net	-2	-4	-25	-31

Particularly in areas with large numbers of empty buildings, as in the regions of the Midlands and the North, there is a strong belief councils are failing. The majority of the struggling retail sites in secondary shopping areas must accept

128 *Too Many Shops,* ibid

129 *Empty Housing; Standard Note SN/SP/3012* gives the total number of empty homes in England at 720,000. Given a total of just over 22 million households in the 2011 census, this is a total of around 3%

130 *Shop vacancy rates edge up in August*, Drapers Online, 2 October 2012

131 *High street shop vacancies rise*, Management Today, 4 September 2012

132 *YouGov polling for Policy Exchange,* Op cit

the permanent change facing the retail landscape and revert to residential uses or evolve into other classes of non-retail services. Keeping buildings in retail use when they are no longer viable retail sites is a social and economic waste.

The government knows best where you should be shopping …

At the heart of current policy is the belief that individuals cannot choose their own retail experience. Current policy requires local councils to intervene heavily to direct customers. If we examine central government's requirements for retail planning from the recent National Planning Policy Framework, we find local authority planners must:

- *"Define a network and hierarchy of centres that is resilient to anticipated future economic changes."*
- *"Define the extent of town centres and primary shopping areas, based on a clear definition of primary and secondary frontages in designated centres, and set policies that make clear which uses will be permitted in such locations."*
- *"Allocate a range of suitable sites to meet the scale and type of retail, leisure, commercial, office, tourism, cultural, community and residential development needed in town centres."*[133]

This framework is based on the idea that council planners, wiser and better-informed than individual property owners or consumers, can determine the optimal location and sizes of retail sites. Planners can predict the shops needed. Consequently, property rights should be controlled by council planners. These assumptions lead to unrealistic and prescriptive planning. They assume knowledge of the future, they assume that change should be guided by councils, not by consumers. Yet the current planning policies cannot even take account of changes arising from the internet. Tests are applied to push retailers towards particular sites, usually in central locations, ignoring that retailers already want to locate in the best site for their customers' needs.

"Tests are applied to push retailers towards particular sites, usually in central locations, ignoring that retailers already want to locate in the best site for their customers' needs"

The real drive behind retail policies is the view that people do not make the right choices about where they should shop and need planners to direct them. The only possible justification in a free society for such government intervention is where an unfair cost is directly imposed on others, such as with pollution. These are termed 'externalities'. Town Centre First does not tackle such externalities. Rather, the policy just tries to direct where people go. This attempt to control retail has had strong negative effects.

Some large companies want to stifle competition and growth under the banner of 'certainty'

It is a deep irony that the planning system's champions often like to present themselves as on the side of the 'little guy' against big companies. This is particularly true with Town Centre First. Yet in reality some big companies are cautiously in favour of an anti-competitive policy because it protects their market share. These tend to be retailers either with dominant existing positions and/or poor management, and who therefore fear competition.

133 *National Planning Policy Framework*, Op cit

Arguing that companies need certainty, planners fail to understand that while certainty is good for dominant companies it is not pro-growth. A market constantly changes in response to consumer pressure. Some big companies may seek to shut consumer choice down if it threatens their leading positions. Growth occurs when businesses are forced to listen to consumer views and to keep their prices low. Our current system is the very antithesis of this, and hurts the companies that are trying to respond to consumer pressure, to the benefit of those who wish to stifle it.

Control is both over high streets and consumers, and ends up neglecting consumer wishes

At present control is extended both over high streets and consumers. The two attempts at control reinforce each other. Attempts to shut down areas away from the council-directed high street are a means of funnelling people to areas where councils exercise a high degree of control. If people will not choose badly managed high streets, the current assumption is the solution must be tighter restrictions to over-ride choice.

The neglect of the consumer, and the ideological agendas that sometimes (though not always) emerge in local planning bodies is unsurprising. Where policy is based on the idea that people should be controlled rather than listened to, this will not result in successful retail policy. If coercion is available then instead of focusing on what high streets could offer consumers, the focus will be on how to push consumers to act as planners think they should.

Derelict shops have a major wider economic and social impact

The paradox is that the empty shops that result from our current system are not just a problem for their owners but blight the wider area. As the Portas Review noted, "*When important properties in the middle of high streets are empty it pulls down the attractiveness and desirability of the street. The problems associated with empty properties are considerable. They attract vandalism and increase insecurity and fear. And this all reduces the value of surrounding businesses and homes*".[134]

Empty housing has a huge impact on the value of surrounding properties. A 2003 HomeTrack survey found that a derelict house pulls down the value of a neighbouring property by 20%.[135] It is likely that a similarly strong impact is felt for retail properties, making empty and derelict shops part of a spiral of decline. Empty or boarded-up shop fronts do not encourage shoppers to visit a high street and may drive customers away, especially affluent ones.[136] A feeling of safety is the fourth most important issue for consumers, and a row of derelict shops can attract vandalism and graffiti. By allowing derelict shops to remain on a high street, planners can make a bad situation worse.

The demise of some high streets is a symptom of change not a cause in itself

Concerns over the failure of the high street mistake symptoms for causes. This report shows trying to control people has been socially and economically counterproductive. If people want to shop in their high street they will do so. We urgently need to find ways to help high street retailers can create an

134 *The Portas Review; An independent review into the future of our high streets*, Op cit

135 *The Blight Guide on Where Not to Live*, The Times, 10th June 2003

136 *YouGov polling for Policy Exchange*, Ibid

attractive, holistic retail experience. But this is not the same as restricting consumer choice. With the rise of the internet, unless Town Centre First is about to lead to restrictions on Amazon, policies that prevent physical retailers from responding to customer demand will merely drive shoppers online. Retail is over-regulated, not under-regulated, with attempt to tell people what planners think they should want on high streets (e.g. less car use), leading to the neglect of the things people actually want (e.g. adequate parking). We must accept that changing retail patterns are symptoms of wider changes in technology and consumer attitudes.

People do not support the existing Town Centre First policy

There is cross-party support amongst MPs for Town Centre First. Politicians are nervous about the emotional reaction on the subject of high streets. This is perhaps because politicians overestimate the support among the wider public for Town Centre First, particularly given the high costs it imposes. The table below from YouGov's polling shows how 2010 voters from all three main parties reject the Town Centre First policy if it raises the cost of living. This fits with reality. Not everyone supports Town Centre First, and even if they do, they may often do their shopping out of town. In the YouGov polling, whether or not stores were in a town centre was the third least important issue for shoppers.

Table 11: Would you support or oppose retail policies that restricted the growth of out-of-town shopping developments, even if this meant higher prices in shops? [137]

	ALL	2010 Tories	2010 Labour	2010 Lib Dems
Support	26	27	27	32
Oppose	45	49	42	42
Net oppose	-19	-22	-15	-10

The regional, class and age breakdowns all show that far from being a universally popular policy, Town Centre First is unpopular among all groups if it raises prices. There is very limited variation, although Conservative voters, poorer voters, those from the Midlands and those who are younger are all slightly more against Town Centre First than other groups.

Current policy is a dead end as it ignores how the internet is reshaping retail

The Portas Review ignored the extent to which the internet is changing the retail experience. Online will not kill the retail experience, but it will fundamentally reshape it. The main retail divide is not between out-of-town and the high street. It is between online and attractive physical retail centres. Portas ignored the evidence that out-of-town is often more sociable than high street shopping, assuming, without reason, the exact opposite. If our priority is to increase social interaction, we should be concerned with creating as many attractive physical retail centres as possible, regardless of whether these are situated on the high streets or out-of-town.

137 *YouGov polling for Policy Exchange*, Op cit

As currently constituted, Town Centre First may have the opposite effect to that which was intended. Because it restricts the development of attractive out-of-town physical retailers it will make the retail experience more based on the solitary click of the mouse. People will not trudge in the rain or shine to the small and inconveniently located local stores to try to pay higher prices for an item that may or may not be in stock.

Current retail policy is a dead end. The position of many high streets may lead councils to make the mistake of ramping up interventions. Islington council declaring that it may support individual shops is an alarming example of this. Rather than throw good money after bad, policy should take steps to help transition the high street into more economically sustainable uses and to put in place policies that give high streets greater power to attract customers, not limit competition. Ultimately retail policy must be about consumer needs, not dictating to them.

Clone towns aren't necessarily wrong towns if that is what the consumer wants

An example of how often retail policy is assumed by some groups to mean setting out what retail should look like (rather than how retailers can serve consumers) is the debate over multiple stores. A paper entitled *Clone Town Britain* in 2004 lamented the homogenisation of retail high streets with corporate retailers that once consisted of independent shops.[138] It argued that chain stores are undesirable, and that the shift requires political intervention. It asserted (unsubstantiated) that high streets populated with a mix of independent retailers are more 'resilient' than those with multiples. In fact, one study finds that high streets with a preponderance of multiple chains are more resilient to new competition than high streets consisting mainly of independents.[139]

With regard to the first point, as aesthetics are a matter of taste, and since taste is not universal, it is nonsense to state that one form of shop management (independent versus multiple) is more desirable. The *Clone Town* paper ignores positive effects that multiples may bring via efficient management systems keeping prices low and quality high, and perhaps adding greater name-recognition to help drive local footfall. In some cases, people would prefer relatively standardised and consistent items across shops. In other areas, people may like the independent and esoteric choices that independent shops allow, or feel that they are given better treatment at a smaller store. The point is that this decision and trade off should be left to consumers.

This is not to say that the mix of retail shops is unimportant. On the contrary, the retail mix is essential to the attractiveness of all shopping destinations, and it is imperative that it is properly managed. But this should take place with reference to what customers want, not government intervention. *Clone Town Britain* is a reminder some 'problems' in retail are only problems if we assume that retail should look or consist of a particular type or types of store. This is not a sensible way to proceed. Those who support small stores have a point about smaller retailers often being heavily burdened by regulation. Where overly onerous regulation and other burdens distort the market by hitting small shops disproportionately they can lead to a poor result for consumers. But ultimately the decision about chain or independent stores is best left to our decisions as consumers in our day to day lives.

138 *Clone Town Britain*, The New Economics Foundation, 2004

139 *Extending the Competition Commission's findings on Entry and Exit of Small Stores in British High Streets: Implications for Competition and Planning Policy,* Op cit

Part Two
Recommendations

6

A New Approach Focused on Consumers is Needed

The rising political importance of cost of living issues means it is time to reassess retail policy

The timing could not be better for a reassessment of retail policy. Cost of living is one of the main political issues of the day, and is expected to be a dominant theme of the 2015 General Election. Inflation and rising prices were cited as one of the most important issues by 12–19% of voters throughout 2012.[140] This issue has consistently been in double digits since the economic downturn began in 2008.[141] Yet inflation has actually been low in historical terms, for example on a monthly (annualised) basis fluctuating between 2.5 and 4% in 2012.[142] Voters are concerned about the steady erosion of purchasing power. Real wage growth for most households was slow in the run up to the global financial crisis, and since the crisis began, incomes have fallen. In Q2 2003 real average household disposable income per head was £3,673 for that quarter. Four years later in Q3 2007, it was only fractionally higher at £3,777. It fell to £3,640 in Q2 of 2012.[143] Average households are worse off than they were ten years ago. Even as the economy has shown signs of improvement, this has not led or gone along with rises in real wages.[144]

Various surveys find 'cost of living' is a key political priority. For example, the Conservative peer Lord Ashcroft's large and publicly available research on voting patterns found voters are deeply worried about declining living standards. The perception among voters is that life is getting more difficult. "*The rising cost of living was a recurring theme: 'It's a lot harder to make ends meet.'*"[145] Liam Byrne, conducting a similar exercise for the Labour party, found falling worker incomes lost Labour the 2010 General Election; "*workers on between £20–30,000 a year have now faced huge forces in our economy, squeezing pay packets and the cost of living for at least five years*".[146] The YouGov polling for Policy Exchange's work *Northern Lights*. As one focus group member put it, "*Everything's just so expensive, the price of living, you can never make ends meet.*"[147] The top five voter priorities for action by politicians were *all* cost of living issues (e.g. lower energy bills), and feeling was particularly high among the C1 and C2 classes, often considered the key 'swing' constituency.

Ed Miliband declares that "*my concern, like millions of others, is that for the first time for more than a century, the next generation will struggle to do better than the last.*"[148] David Cameron declares that "*I totally understand the concerns people have…The parents with frozen wages who feel the bills getting tighter by the month….We are on the side of those who want to work hard and get on in life. I understand how impatient they are for change, for things to feel tangibly better*".[149]

140 *Issues Index 2007 onwards: The Most Important Issues Facing Britain Today*, Ipsos MORI, 1 October 2012

141 *Issue Index 1997–2006: The Most Important Issues Facing Britain Today*, Ipsos MORI, 19 December 2006

142 *Prices, Inflation and Productivity*, Office for National Statistics, 2012–2013

143 *The Economic Positions of Households (Q1 2012)*, Office for National Statistics, July 2012

144 A great deal of work has been done by the Resolution Foundation on this area, and even if perhaps overly pessimistic, they argue persuasively a return to growth may not necessary lead to rising median wages

145 *Project Blueprint; Phase 2*, Lord Ashcroft, September 2011, and available online

146 Prospect pamphlet by Liam Byrne, *Why Did Labour Lose and How Can they Win Again?*, 2010

147 *Northern Lights: Public Policy and the Geography of Political Attitudes*, Policy Exchange, 2012

148 *The Promise of Britain*, speech by Ed Miliband, May 2011, and available online

149 *Conservatives will battle for Britain's future*, David Cameron, The Daily Telegraph, 3 March 2013

Through reform of retail policy there is a chance for politicians to show they are taking action on this agenda, forcing their opponents on the defensive.

Accepting the changes within retail and people's right to choose

Any attempt to set out long term retail policy must accept the shift within the retail sector set out in Part I. Even if the economy recovers, shifting consumer preferences will force retail to change. The existing model of retail is changing. Policy must accept online shopping. It should see increasing choice available to consumers as a good thing. People can use internet shopping to fulfil their needs, often at low prices, and it makes it easier to find uncommon items. We should focus on how high streets can compete, not stifle competition; on how we can ensure that physical retail can provide a pleasurable experience, not on reducing consumer choice.

Current policy favours a pre-ordained outcome determined by government. The interventions undertaken to create this chosen outcome lead to distortions, lower productivity and reduce social interactions. Instead we need a pro-consumer retail policy fit for the 21st century. This means:

- Continuing to minimise regulation and other barriers across the retail sector.
- Removing barriers in the way of high street success; co-ordination of the retail mix, allowing car use etc. We need to accept some retail areas should be able to convert to other uses.
- Removing barriers that prevent out-of-town shopping, predominantly in planning. These raise costs, are ultimately anti-competitive, and reduce social interaction.

The goal of a 21st century retail policy should be to remove distortions and create a system which responds to consumer pressure. The goal should not be about imposing a pre-ordained retail solution. The answer to each high street's problems will not be identical in all cases, and will change over time. The retail environment needs to adapt to each wave of consumer pressure. As no single prescription is correct in all cases or times, retail policy must be about creating a framework that allows consumer choice and a level playing field, without direct government interference.

Business rates and other taxation burdens

The current level of the deficit precludes serious tax cuts. The issue of business rates is cited as a particular difficulty for retailers. However, as discussed in Part 1, the level of business rates is not the main reason retailers are struggling. But research does suggest that in the short-run, business rate changes do have an effect.[150] This means that the Government's current practice of linking business rates to the Retail Price Index (RPI) acts like a lottery on the fortunes of retailers. The Government's delay on the rateable values revaluation also means that some businesses will be effectively subsidising others.

Therefore the first recommendation is the business rates revaluation should go ahead. Halting the revaluation is like asking individual taxpayers to pay income tax based on last year's earnings.

150 *The Capitalisation of Business Rates: An Empirical Study of Tax Incidence in Six London Boroughs*, LSE PhD thesis, M Mehdi, 2003

The second recommendation on business rates is that it should be frozen for two years for retailers. Given use classes, this should be reasonably easy to implement, as it can simply apply to all class A buildings. As discussed earlier, the largest price rises in recent years have been in areas that impose costs on retailers not for the goods which most retailers sell (e.g. in fuel and electricity rather than clothes and books). This has hit retailers particularly hard.

However, this can only be a temporary measure. For a start, there is the cost implication of a long term freeze. Assuming retail business rates raise £6 billion, as referred to in Part 1, and 3% RPI inflation each year, a freeze would cost around £180 million each year, so freezing two years would cost just over £360 million. This would mount rapidly if continued into the future. Further, it creates an unhelpful anomaly in the tax system at a time when we need reduced complexity.

“Reform should focus on helping retail policy move into the 21st century and giving high streets the tools to succeed”

The point of this two year freeze is to buy time for wider reform of retail policy as set out in the rest of this report. Reform should focus on helping retail policy move into the 21st century and giving high streets the tools to succeed. This two year freeze is thus a breathing space for retailers while retail policies are revisited and some shops convert to other uses. This means that over the next five year period, retail business rates should make this up, converging back with other uses, so that this is not an on-going liability to the exchequer or new distortion in the tax system.

Regulatory burdens should be kept to a minimum through bi-annual reappraisals

As discussed earlier in the report, regulatory burdens for small shops can be very extensive. This can result in shops serving the consumer effectively being unfairly penalised. The Coalition’s Red Tape Challenge focused on retail and had helped to reduce some of the burdens in this area. However, this is not a one-off issue but one that needs continual assessment. Therefore the Coalition should ask the All Party Parliamentary Group on Retail to produce a report that evaluated the impact of the Red Tape Challenge and the proposals and changes that were made. They should also be asked if they would produce a bi-annual report on the levels of regulation in the retail sector with the remit of only being able to suggest reductions and simplifications, not additional burdens. This would set in place a mechanism for a constant pruning of the regulatory burden on retailers.

The changes suggested in the following chapter around the strengthening and expansion of Business Improvement Districts would also help to create a new group of organisations that will be able to liaise on these issues and help direct politicians to areas where regulatory burdens are unreasonable, unclear or simply unnecessary.

7
Giving High Streets the Necessary Tools – New Business Improvement Districts

Giving high streets the best chance to succeed

The success of high streets will continue to hinge on their ability to deliver reasonably priced, quality goods in an attractive consumer experience. In order to give high streets the best chance of delivering these fundamentals, retail policy must change. A new approach is necessary.

At the centre of this approach are enhanced Business Improvement Districts (BIDs) with greater powers. Revised BIDs are essential in overcoming the problems of separate ownership in the high street associated with poor retail mixes and poor management of shopping environments. Where local councils have failed to address the problems facing high streets, we believe that radical measures are necessary. If local retailers want councils to continue to run their area, this should continue. But retailers should be able to opt out if councils are seriously failing. Reform will not save all high streets, but gives all high streets the best chance of succeeding by serving customers' needs.

Bringing in Landlords to the BID structure

Landlords need to be brought into the BID structure. At present landlords are not members of BIDs. Yet the landlord has the strongest long-term interest in the property. A tenant may only have a five or ten year lease. Improvements to the local area lead to higher revenues, some of which will be reflected over time in higher rents. Landlords have the clearest incentive to improve retail destinations, thus seeing revenues – and rents – rise. They have the longest time horizon. The BPF representing landlords has called for BID membership to be extended to landlords. In the USA where BIDs are more powerful and more prevalent, landlords are often heavily involved.

We therefore recommend that in order to align long term interests, landlords should be given membership and voting rights for BIDs. Their voting rights should use the same hybrid system for existing BID tenant members, with 50% of the vote allocated on a one-business one-vote and the remaining 50% based on business rate values. This will ensure the new enhanced BIDs reflect tenant and landlord views, with individual landlord's votes weighted in line with their tenants.

Paying for new professional BID management team by hypothecated business rates

With new powers and responsibilities, BIDs will require additional funding and a professional BID management team. At present, BIDs are funded via *additional* business rates levied on businesses within the BID area. This means that BID teams tend to be smaller than the equivalent in the USA. Many BIDs do have experienced teams but they are not yet the equivalent of the USA's, where BID management is becoming a profession in its own right. For example, in early 2013 the highly successful New West End Company in Central London had just nine staff compared to over thirty for the Time Square Alliance that manages the area around Time Square in Manhattan.

The current principle of an additional 1 or 2p business rate levy is unfair. Where BIDs are introduced they take over work currently undertaken by local councils. They should therefore receive some of the funds allocated to local governments for this work. The most natural source of this funding is via business rates. Local government receives these funds back from the central government through the formula grant. BIDs should instead be allotted a portion of these rates in order to pay for a small BID management team and day to day spending. The government should consult, but it would only be a small percentage, (perhaps 3–4p in the multiplier, so around 6–8%) of business rates. Since the average business rate is around 14,000, a rate of around 6–8% of business rates would mean an average of £900 or so for each property being managed by the BID.

BIDs should be free to levy additional fees if they want to, subject to a vote by local retailers. However, the presumption should be that the core funding and operation of the BID is replacing the work of councils within their area (e.g. cleaning and refuse, managing minor planning issues,) and so the BID should be able to cover its costs through the redirected business rates. Government should work with stakeholders like the British Property Forum and Local Government Association to find the right level of business rates to make this work.

Local councils also capture some of the uplift in land values created by new development in their area through Section 106 agreements or the Community Infrastructure Levy (CIL).[151] These require developers to pay for particular projects in return for planning permission. In areas with BIDs, councils that charge a Section 106 payment for development in the BID area would have to have their spending approved by the BID, though it would still be the council's prerogative to put forward proposals. This will ensure funding goes towards projects that support the local high street. For CIL, as areas with neighbourhood plans receive 25% of the CIL to spend as they see fit (within limits), BIDs should receive this 25% CIL share as they are analogous to a neighbourhood plan.

BIDs should be on-going management teams and appointed and dismissed by local retailers

BIDs should not be mandatory. It would be wrong to centrally remove effective and conscientious local councils from managing their high streets. But where councils are not doing an effective job, a set minimum number of retailers petitioning for the creation of a BID (e.g. 25% of commercial premises in a proposed BID area) would trigger a secret ballot on the issue of setting up a BID. The vote would use the current BID voting system that takes account of both numbers and shop size.

151 Section 106 refers to the relevant section in the Town and Country Planning Act 1990

If a BID is approved the new BID would ask for tenders to come forward with different visions for their local area, with these competing against each other. The winning pitch would have to obtain more than 50% of the retailers' vote using the existing BID voting mechanism. If there were multiple pitches and none obtained more than 50% in the first round of voting, the top two visions and management teams would go head to head in a run-off ballot. On all votes the option of continuing to be managed by their local council would be required, so that this too was an option.

The BID management team would not have an absolute free rein once chosen. If BID members felt that the management team were going beyond or ignoring what they had proposed in their original pitch for support, there should be a mechanism to remove them. This should again begin with a petition with a minimal threshold, (e.g. again, 25%), and this would be followed by a vote where a majority vote would remove the management team. In other circumstances the management team would be renewed every five years. In the intervening period the BID would both implement its original vision and then make changes within its purview using the powers defined below.

The structure proposed is not completely different to existing BIDs. Those seeking to run the BID would continue to have to set out their priorities and proposed actions in order to win the votes of local retailers. However, it makes BIDs more into an on-going directing body; a day-to-day management committee. It would also mean the BID did not have to seek council approval for its activities. Most of all, whereas at present a specific BID is proposed and voted on, this allows for a period of discussion and debate after the local retail centre decides to investigate the BID option. It allows for competition between different visions.

It is likely the creation of these new super-BIDs will paradoxically reduce the number of BIDs that will be necessary. BIDs will only be created where local authorities are doing a poor job of managing their retail centres. The possible existence of new powerful BIDs should make councils behave sensibly in order to retain their powers. Competition is a spur for improvement. However, there will still be councils that simply fail on some or even most of their local high streets.

The aim of this is to create a new class of management organizations accountable to local consumers

The aim of this is to create a new class of management organisations. These will largely be companies that are experts in running retail centres. Certain companies may create franchises that take a tried method of management and apply versions of it to other retail centres. So this might be the New West End Company, or Westfield, or bodies that own or manage other large retail centres such as Bluewater or the MetroCentre. Or over time it might even be successful councils' own planning experts who start up new management companies.

It is likely that individual BIDs will be run by companies that may span many areas, either in close proximity or similar in type. The levels of funding available are unlikely to support individual and standalone specialised BIDs in every single retail centre. BID companies would offer a tailored approach in each area, but probably built around a typical core strategy in each case.

What should develop over time are a series of approaches and specialised methods to try to maintain and increase footfall on existing high streets. Some companies will be more adept in the very largest retail destinations, while others are more skilled in smaller centres. Some will be better at focusing on higher end customers; others will have expertise in less affluent areas. Some will try to convert more of the area to housing, others will not. When a local area decides to set up a BID they will likely end up using a company that has a track record of success in areas similar to itself.

Just as every high street is different, each solution will be different. But in all cases customers will be central. Organisations will need to win over local retailers to their offer. This in turn will mean enthusing local customers and local people about what will be on offer. The BID will have to see what those who use local retailers week after week want. The community will actually be far more engaged than the current local authority process, where high street management is only one of many issues which one-in-three voters may consider when casting their votes.

Those councils that are actually engaging with what local people want in the management of their high street are those high streets that are flourishing. In these cases there will be no need for the proposed BIDs. The creation of new powerful BIDs will halt councils from pursuing ideological wars against those who use their cars, or neglecting the basics of clean and safe streets.

Control to local businesses in a wide range of areas on the high street – but with safeguards

We propose that the revamped BIDs be given extensive powers in the following areas;

- Control over local space ('crime and grime')
- Car parking and non-strategic transport issues within their area
- Facilities such as lavatories and ATMs
- Control of the retail mix by creating new use classes within BID areas
- Change of use and some issues around permitted development and heritage
- More serious planning changes
- Other amenities and offers (e.g. WiFi and branding)

However, there should be a safeguard introduced for changes that impact on residential property owners. In order for this safeguard to be activated, two criteria would have to be fulfilled. Firstly, the change would have to impact on residential property owners not part of the BID. Secondly, these residents would have to complain to the council. The council could not oppose changes if residents are happy to allow them. So a large shop wants to convert to a restaurant on a street corner opposite residential homes, this would require council approval if these residents complain to them.

Changes which only have an impact within the BID area and its retailers should be controlled by the BID rather than by councils. This would give BIDs a wide degree of flexibility to tailor the high street towards what customers want, while protecting those who live on the fringe of BID area from seeing major changes that might be detrimental to their quality of life.

Control over local space 'crime and grime'

This area is already controlled by the existing BIDs. The basic issues of clean safe spaces are crucial to retailers. These issues would be part of the core BID package, with cleaning and security provided by the BID over and above any normal police presence. As can be shown by the 90% renewal rate that current BIDs enjoy, commerce finds very useful to have a body that directly answers to local businesses. It is worth recalling in the YouGov polling we commissioned, a feeling of safety was the fourth most important issue for consumers.[152]

Car parking and non-strategic transport issues within their area

As discussed in Part I of the report, the long-run failure to invest in adequate high street parking has been disastrous. For high streets to thrive, as many consumers as possible must be enticed to visit and shop, not just residents with convenient access to public transport. Car culture and its convenience are too ingrained into the British way of life for the planners' war on the car to succeed. Rather than switch modes of transport, shoppers switched preferred shopping locations. Moreover, it is up to people how they travel, and issues like pollution are already dealt with by high petrol duties and VAT levies. Older people, families and others have limited choice. This war on car use cannot be dealt with by central intervention. It must be solved by changing high street structures.

Existing car parks owned by local authorities would fall under the provision of the BID. BIDs should be granted exceptional powers to determine local authority parking rates, with a minimum charge set at the running cost of the car park with an agreed 'margin' determined via government consultation. This revenue would for the foreseeable future continue to go to the local council. Of course, if BIDs wanted to, they could set higher rates to try to manage demand, but this would be up to the BID. In terms of private car parks, BIDs should potentially have powers to cap excessive charges for private owners, and could of course try to buy this site off the current owners.

Where the BID itself owned car parks, BIDs would have to weigh gains from charging with the fact it discourages shoppers. Like most retailers they are likely to reduce parking prices and seek to make it easy for those who want to visit using a car just as they seek to make it easy for those wishing to use public transport. Using powers planning discussed below, BIDs would be able to develop new parking spaces as necessary. This will ensure if parking charges are lowered, new demand does not go unfilled. It is likely that this should also lead to a reduction in 'pay and display' spaces, which are more restrictive than other methods of parking.

In addition to parking, non-strategic transport issues would be run by BIDs, with councils retaining oversight over major strategic routes. If a BID decided to pedestrianize the main thoroughfare for cars and buses through a market town, this would have a major impact on wider traffic patterns and the local economy. This would not be permitted without council consent. But if the BID wants to pedestrianize a small side street this would be permitted. The scope for this should be wider rather than narrower. For example, a BID that decided to install or remove cycle paths would be allowed to do so. Councils' 'strategic issues' would be limited. BID initiatives on transport should only see council intervention where they are dealing with major thoroughfares, key issues, or if they trigger the safeguard by impacting on local residents, who then take an issue to the council.

152 *YouGov Polling for Policy Exchange*, Op cit

Facilities such as lavatories and ATMs

Lavatories are important for an ageing population. The provision of lavatories is one of the top three issues for modern customers. There are a host of other facilities necessary to make an area work, whether benches, ATMs or sufficient and clean bins. The BID would take control from local authorities on such issues. This should allow them to control issues such as the siting of ATMs, to decide whether or not to put in new benches or bins in the local area, or decide whether ATMs should be able to charge. All of these facilities are part of the overall retail experience. BIDs would have final say over all of these areas to allow this to be tailored to customer needs.

Controlling the retail mix by creating new use classes within BID areas

There is a difficult balance to be struck on the retail mix of an area. It can be pure snobbery to deem viable shops distasteful. Charity stores, pound stores, convenience stores, bookmakers, payday loans/pawnbrokers, fast-food stores and chain pubs can help disadvantaged high streets to stave off rows of empty and decaying shops. But as discussed in Part I, when a retail area becomes full of stores that put off shoppers, particularly shoppers with more mobility and higher spending power, this can create a spiral of decline. Consumers seek other retail centres, and all shops on the high street suffer falling footfall and revenues. Our polling found the mix of shops was the number one issue for customers, so it has to be got right.

It is critical to strike a balance between securing occupied shops on the one hand and maintaining the right retail mix on the other. Therefore we propose allowing BIDs to create a new use classes in their area. This would allow them to limit the concentration of particular stores (e.g. fried chicken or charity stores) by creating a particular use class within the BID, and then limiting the number of stores with this use. This would include changing the use of existing stores where concentrations were already developing. To protect landlords and tenants, a unit's permitted use could only be altered when the lease either came to an end or the existing tenant gave notice they wanted to leave. Over time, this would allow the BID to minimise the number of stores that are unattractive to most shoppers. This gives the same level of co-ordination to high streets as exists for a single owner.

To create a new use class would require a special vote of at least 50% of the BID in both absolute numbers and rateable value, and separate approval of both tenants and landlords in two separate votes. This creates a strong threshold. In particular this double vote is useful as landlords will generally oppose limiting their freedom to select tenants, but will agree where a concentration is developing that is seriously damaging the overall BID. This majority double-vote is a high hurdle but it strikes a sensible balance between the rights of landlords and a good retail mix. It stops particularly unhealthy concentrations developing, whilst giving landlords general flexibility.

Change of use and some issues around permitted development and heritage

The current plan-led system often fails in facilitating necessary changes to the retail stock. Local councils may obdurately cling to plans even when they are not viable. Proposals to change the layout and format of stores can be rejected by councils, even if necessary to make high streets viable.

Control of issues such as change of use and some permitted developments should go to the new enhanced BID. If a high street wanted to allow some stores to change to residential or office use to shrink the high street to a more viable size, this should be handled by the BID. If a shop wanted to build a porch at the front of its building, permission would be granted by the BID. Where any proposed change had a clear impact on neighbouring residential properties, councils would retain planning powers, under the safeguard described earlier.

Along with this should come greater flexibility on in store layout. Internal layout changes to all normal and Grade II buildings (94% of all listed buildings),[153] should be decided by BIDs. The 6% of Grade I and Grade II* buildings would remain controlled by local councils as any changes affect relatively rare buildings. This would give more flexibility to retailers than is the current case.

More serious planning changes

Within the BID area more serious planning issues would also be controlled by the BID. If a high street wanted to demolish and rebuild a particular store, or turn it into a car park, or a shop wanted to add an additional floor, this would go through the BID. This would mean quite substantial reshaping of the high street could occur. Issues such as the right to light would of course remain untouched and have to be respected by changes.[154] Further, any changes that were managed by the BID and cost more than would be possible through the on-going BID funding through the business rate would have to be funded through a distinct levy approved by a wider BID vote.

In many ways this is merely an extension of the neighbourhood plan system. It is allowing a local community to take control. However, rather than doing this through the local plan, it is creating a more flexible system where retailers can respond to consumer need. The proposed safeguard for residential properties would protect residents within or nearby the BID area. We do not propose allowing a complete redesign e.g. a cluster of new towers sprouting over town, but this would allow substantial change.

Other amenities and offers (e.g. Wifi and branding)

BIDs can also deal with areas such as internet connectivity. All retailers would benefit from a push to improve mobile reception but no particular retailer will organise and pay for it. The BID would do this as part of managing the area. Similarly, in terms of branding, all retailers would benefit but without a co-ordinating mechanism like the BID, action will be slower. In both cases, this would be of more direct economic interest to the BID than the local council.

BIDs could serve as a platform for implementing a host of common projects that all or most retailers would support; organising events and entertainment to attract customers, helping independent retailers move online, and trying to place Government services like post offices or licensing bodies on the high street.[155] BIDs could also experiment with new ideas about how retail will evolve, as discussed later on. Rather than BIDs having a defined list of powers, they should be able to do anything that they want that is not actively prohibited, similar to the general power of competence for local government, and of course their own financial constraints.

153 *Guidance notes for: Application for Listed Building Consent for Alterations, Extension or Demolition of a Listed Building*, op cit

154 The Right to Light is currently being reviewed, but it is not thought major changes will follow

155 A more comprehensive set of suggestions can be found at www.100ways.org.uk

BIDS are pro-competition and should be governed by a code of conduct and transparency

Those who oppose retailers being given more power might argue that the BIDs are anti-competitive. This is false. They are no more anti-competitive than a single landlord or landowner is. Just as single owner does not stop competition within retail centres; neither would the new BID mechanisms. Westfield does not try to arbitrarily restrict competition. BIDs would have a strong interest in not restricting competition, as this would push customers away, hurting the centre's overall viability. Through effective competition, overall footfall and revenues will be maximised.

Large out of town centres, whether in or out of town, have even more power than we propose for new BIDs. But this has not led to the resurrection of the guild system. Retailers all benefit from clusters of competition. Even on high streets, most retailers locate near stores that closely resemble them, because such competition is what consumers want. In addition, the rise of online retail means clusters of retailers who offer expensive or limited ranges of products are likely to fail much faster. Improved BIDs are about helping high streets to compete, not about reducing competition. Unlike, for example, current Town Centre First policies.

> "Even on high streets, most retailers locate near stores that closely resemble them, because such competition is what consumers want"

In addition, the strengthened BIDs would have to operate in a transparent fashion. A certain number of BID management meetings (e.g. one every quarter) would have to be open to the public and press, with the management team having to take questions from local people and any local retailers who wanted to make their points in a public forum. They would have to justify their decisions at such meetings. On top of this, BID management teams are open to removal at any time through a majority vote following a petition among local retailers.

Of course, some retailers may try to exercise undue influence the BID management team through bribes or other measures behind closed doors. This is no different to any large landowner who controls a retail centre now, who may be approached by their retailers to obtain special favours. However, to make clear this is not allowed there should be a code of conduct that sets out how BIDs should operate and makes it very clear any attempt at undue influence would be strictly punished, and where appropriate, covered by relevant civil and criminal law.

Cooperating with Local Authorities

BIDs should still engage with their local authority. No longer able to direct their high streets, local authorities would become partners. The government should be quite clear which powers are being retained by local councils. They would retain strategic control in transport (e.g. major roads where not controlled by the Highways Agency). They would initially control any wholesale remodelling of the high street (e.g. the complete demolition and rebuilding of a particular area). They would continue to receive part of the Business Rates from the BID area. Councils should have to consult the BID when making any changes to an area and the BID should have to approve any such changes (e.g. a major redevelopment in a particular site). This essentially puts BIDs in charge.

BIDs and councils should not see each other as opponents. While councils have a weaker incentive to make the high street a success, particularly compared to its business owners and tenants, local people are unlikely to look kindly on a council which tries to block the plans of BIDs or damage the local high street. In addition, councillors may suffer ideological capture, but hopefully as those high streets which can turn around do so, this will change the terms and nature of the debate. After all, if BIDs can find ways to help the local high street, most local people are likely to be supportive.

'Renewal and reinvention' – pushing forward BIDs and helping in struggling areas

Due to the shift in retail from shopping need towards leisure, some less attractive physical sites, both on high streets and out-of-town, will either not survive or have to shrink. Many local councils have been reluctant to admit it is impossible to maintain all high streets at their current size. To deal with this, BIDs should be automatically created in areas with high vacancy rates. These BIDs should try to determine if the high street's role as a retail destination was still viable or could be made so, and if not, what other roles the high street could serve. It is a 'renewal and reinvention' strategy.

On some high streets, allowing greater flexibility for redundant space (such as combining or dividing retail units or building mezzanine additions), improving communal spaces, more parking, and change of use for units at the fringe could ensure survival, albeit on a smaller footprint. But on some sites the high street as a whole must change use, as retail is no longer a viable option for the area.

We propose that where vacancy rates in a particular retail centre reach a certain point (e.g. 25%), and remain there for a set period (e.g. 6 months), this should trigger the creation of a special BID. This special BID would have to come up with a new local retail plan endorsed by 66% of landowners, (not tenants). It should try to determine the high street or out-of-town centre local demand will sustain and allow minor redevelopment or change of use in line with this. This would take place over a set period (e.g. 3 months). After this a vote would determine if any proposals coming forward were endorsed by local retailers and if any remaining stores would create a BID to manage them.

This process should focus particularly on change of use to non-retail purposes. For example, a cluster of 25 shops where 8 are currently vacant might decide demand in their area would no longer support the current high street. They could reclassify the use of some or all of the buildings. They might decide that 6, 8, 15 or even all 25 units would be better off converting to housing. They might decide that they could survive as a cluster of offices, and convert to business use. Or they could decide that some might become housing, some become offices, and one or two remain as shops. By reducing the high street to a more manageable size and letting some retailers leave or convert to offices or homes, the remaining shops potentially halt a spiral of decline.

This special BID process should make it easier for converted properties to find new buyers or leaseholders. A single property converted to a house or office surrounded by run-down or empty shops will command a lower price than one part of a series of smartened up properties. A cluster of new business premises are more likely to command higher rents than an out-of-place outlier. After all, there are strong economic reasons why businesses tend to cluster together. It should be possible to shrink the high street in a concerted fashion, with shops close to each other converting, rather than creating a pockmarked high street with houses intermixed with retail premises. Such a managed and co-ordinated change is likely to be best for property owners and local people.

BIDs are best placed to deal with these issues even where residential values are below retail

As discussed earlier, the conversion of properties from retail to residential (in particular) will be profitable in some areas, even on a piecemeal basis. As discussed in Part I, figures from those in the sector put this at around 40%, with around another 30% of the stock that could break even. But even with these assumptions, at least 30% of properties would be worth less as a residential property than a retail property. These properties are usually located in more deprived areas.

To some extent, owners will simply have to take a loss. It is not the job of government to cover private losses with taxpayer's money. But even in these areas where retail values are higher than residential values, BIDs are best placed to deal with these issues. Given the high cost of long term vacant shops to both the owner and neighbouring properties, it may be that the BID as a whole could cross-subsidise some shops to switch uses.

This would mean surrounding properties made a one-off payment and the landlord took a one off loss, albeit less than he would achieve without some support. (Of course in the long run there will also be a lower tax bill for the property, given the imbalance between council tax and business rates.) The remaining properties would benefit as tenants from eliminating a nearby eyesore, and as landlords from a reduction in the supply of local retail space which will push up rents. It is a solution that benefits everyone. So even in situations where the value of properties does not make a switch to residential profitable in itself, BIDs are best placed to manage this.

8

How Would the New BIDs Processes Work?

The aim of the new BID process is to create a holistic offer to the consumer

The purpose of the new strengthened BIDs is to allow high streets to create a holistic offer for customers. The whole retail experience must work from the time individuals set out to the shops to the time they arrive back home. So facilities such as lavatories, car parks and restaurants must all be in place, there has to be the right retail mix, and the trip must be pleasant, clean and safe. The proposed strengthened BIDs are the best way to achieve this on traditional high streets.

The further explanation and examples in this chapter are designed to show how giving BIDs the powers proposed in the previous chapter would make a real and practical difference.

Figure 3: Flow diagram of how the new BID process would be set up

The diagram shows how the process of creating a new BID and selecting the management team would happen. It uses the example of a hypothetical high street in Anytown, a town where the council has failed to support local retailers.

After some informal discussions an official petition created by a local retailer reaches 25% of the local high street's retailers and landlords in Anytown.

The BID start-up process begins with a three month deadline for management companies to outline their offer and vision for Anytown high street.

Two companies put themselves forward with different visions for their local area, Beta Management and Xi Management.

Beta Management has turned around a nearby high street and promises to apply the same principles in managing Anytown's high street. Xi Management has less experience in the area although it has an idea about converting more of the high street to a new office cluster, which some retailers support. Some tenants, mainly unpopular shops that benefit from current low rents, support returning power to the council, which is also an option.

The vote of local retailers and landowners in the secret ballot goes as follows:

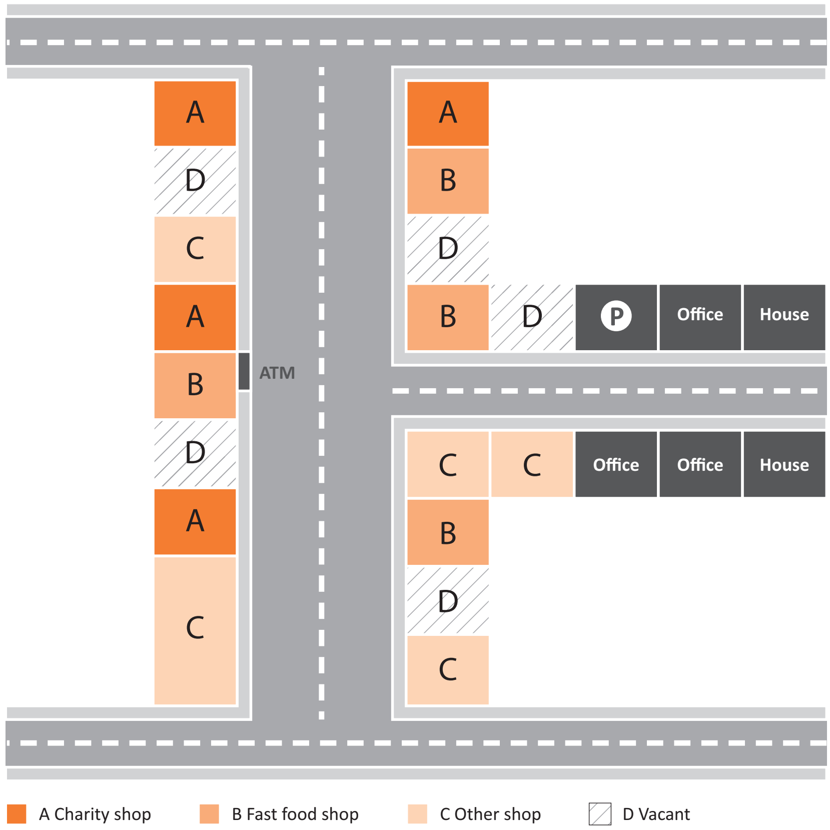
Council control	Beta Management	Xi management
15	55	30

Having obtained over 50% of the votes Beta Management are chosen to run the BID and manage local high street for the next five years (unless a vote or gross misconduct removes them). Beta also decides to implement part of the Xi Management team's idea and allow some properties become offices.

Some examples of how the new BID might have a practical impact on high streets

Once a BID has taken over a high street they will be able to make a wide range of changes. To show how this might work an example is given below. The example will continue the hypothetical example of Anytown set out above, and show the changes the new management team Beta Management, makes. The current state of Anytown high street is set out in the diagram below.

Figure 4: Anytown high street ahead of the BID creation



There are high vacancy rates on Anytown high street. There are also a high number of charity stores and fast food restaurants. There is only a small car park and a single ATM. The council is aware that there were issues around too few car parking spaces, but is unwilling to consider any changes that are 'pro-driving'.

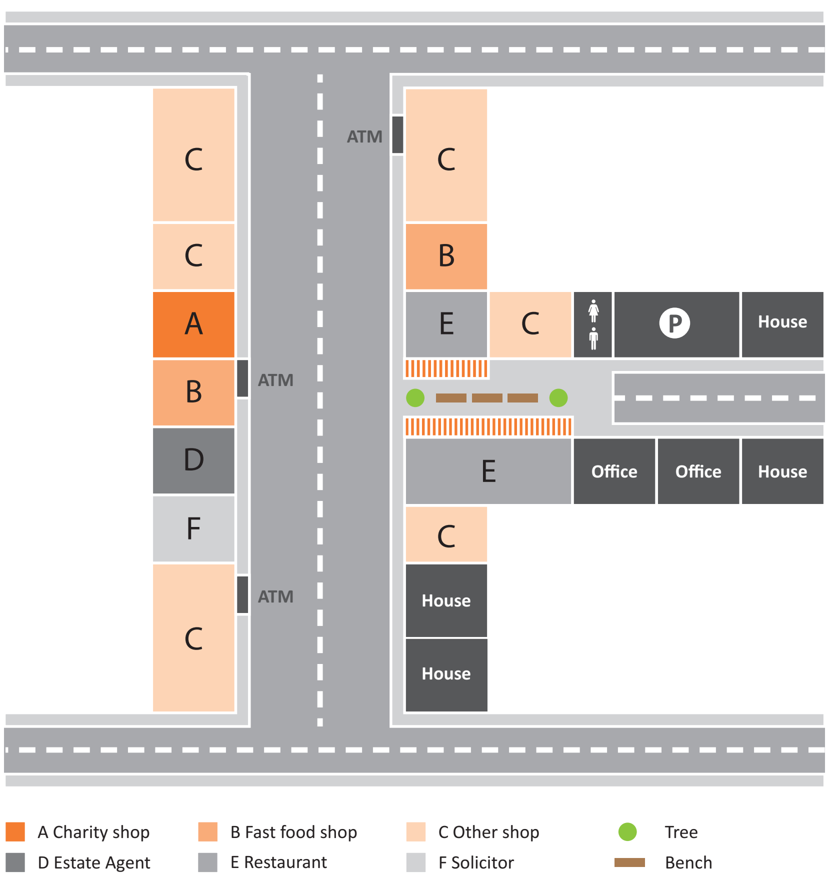
Beta Management institute a series of changes:

- A side street that comes off the main high street is partially pedestrianized. This becomes a more attractive area for a couple of restaurants to move into. Some benches for more elderly shoppers to rest on are created.
- This newly pedestrianized area sees restaurants open on the street underneath awnings, increasing the options for eating.
- Two buildings convert to offices. The offices are occupied by estate agents and a solicitor, who benefit from a central location and high footfall.

- One building is purchased by the BID using an additional levy and pulled down, with a new two storey car park taking its place. This allows for plentiful and cheap parking.
- New toilets are installed within the car park, with low fees that cover the running costs.
- Two new 'use classes' are created for charity shops and fast food premises. This is used to limit these to a single premise for each of this type of property.
- Several smaller shops knock through to join with neighbouring shops, creating larger premises. This allows for a greater range and economies of scale.
- Two new ATM machines are installed on the high street.
- Two properties are allowed to convert to homes. These two properties are close to each other and require little work to do this. This helps consolidate the street.
- A part time caretaker and cleaner is hired to help keep the high street clean and to deal with any anti-social issues that might arise.
- There is a short marketing and press campaign to help spread awareness of the changes that have been made.

The result of these changes means that after six months the high street is very different from how it was before. This is shown in the diagram below:

Figure 5: Anytown high street after the BID makes changes



The high street created will have a better chance of surviving and flourishing in the next couple of decades than the one that preceded it. The changes that are made and the use of business rates to fund cleaning and maintenance directly, (thus creating a clearer accountability on this issue to retailers), give the high street the best chance possible of thriving.

Renewal and reinvention strategy; what it might look like

As discussed in the previous chapter, the point of the new type of BID is to give high streets the best chance. But not all high streets will be able to survive into the 21st century. Ultimately, this is because they cannot serve the needs of their local community. A key point is that as some high streets are turned around by the action of BIDs, this will make the remaining high streets even less viable. A struggling smaller high street in the same town or suburb as a newly revamped high street will see some customers desert it and instead head to the new improved BID area.

Below are two examples of high streets that are simply unviable on anything like their current scale, and how the renewal and reinvention strategy would work for them. Firstly, Anytown retail centre is a small secondary retail destination that serves a moderately deprived part of town. With the renovation of Anytown central high street under Beta Management it is struggling even more than before. The parade of 10 shops suffers from a vacancy rate of 33%, with three shops currently empty, as shown on the diagram below. Of the remaining cluster two shops are betting shops and two are fast food vendors. It is seeing ever diminishing revenues and footfall.

Anytown retail centre has seen vacancy rates of over 25% for more than six months, and so a renewal and reinvention strategy process is triggered. How this proceeds is set out in the flow diagram below.

Figure 6: Renewal and reinvention strategy in operation

The fact that the vacancy rate in Anytown retail centre has been higher than 25% for six months triggers a ‘renewal and reinvention’ BID.

This will run for three months, with local retailers, management companies and anyone else welcome to put forward a plan for the high street.

One of the shop-owners, Robert, comes up with a new plan for the high street. One management company set up by regeneration experts, Metromanage, comes up with another. Both rely on large scale reduction of the space given over to retail.

Those who vote on the renewal and reinvention strategy in this case are the landlords alone. The vote of landowners in the secret ballot goes as follows:

Council control	Robert’s plan	Metromanage
10	50	40

Robert’s plan is thus adopted. But Robert’s plan is opposed by one retailer and landlord who is in the area that is meant to convert to housing. Although his neighbours offer him financial incentives to convert he refuses to do so. The BID cannot CPO his property.

A modified version of Robert’s plan is enacted, with the number of stores shrinking to just five, of which one is a much larger convenience express store with basic essentials. One is the store that refused to go with the proposal and remains as a (unprofitable) store for the time being. The results of this are show below.

Figure 7: Anytown retail centre before BID

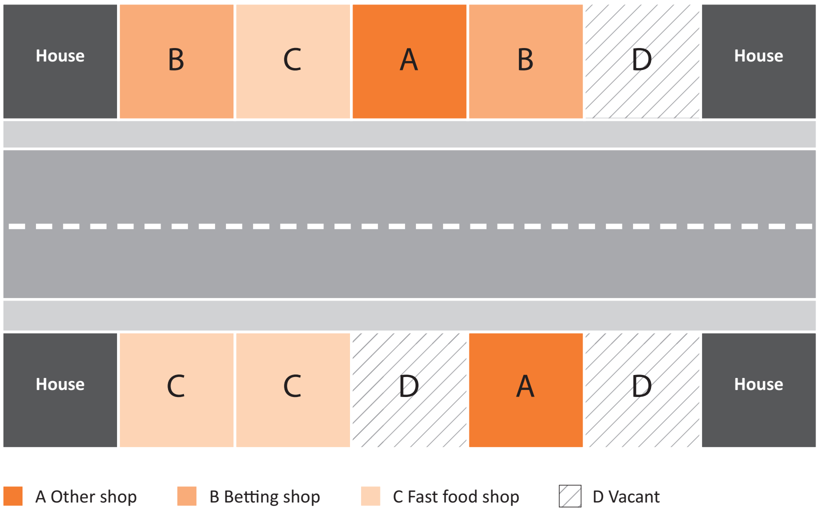
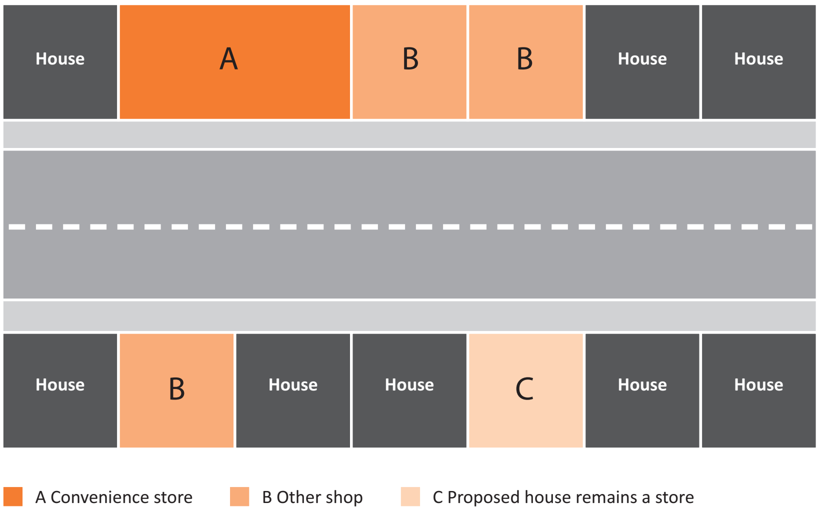


Figure 8: Anytown retail centre after BID



For properties that do convert to new homes, doing it as a group is more likely to be beneficial than on their own. Even in this case, where one retailer refuses to join in, the co-ordination of other properties is likely to ensure they obtain a higher sale or rental value that if there was no attempt to co-ordinate change of use. Of course, in those properties that were not vacant, the tenants would have to agree to be released from their current contract or be at the end of their tenancy. However, if the area and shops are struggling, most will do so. At worse it will mean a delay in some of the properties converting to the new proposed residential or other commercial use.

Of course it is also possible one of the shopkeeper's could propose that *all* the properties convert to homes. If the ten properties were all in difficulties, and it seemed safe to assume that business would continue to get worse, this might be the best possible future for these properties. This would help reduce urban blight and help provide new housing space at a time this is at a premium. This proposal will also help create flexibility within brownfield sites, something the Coalition has already been moving toward with the change of use alterations set out in Part I.

BIDs best practice and pilots should be facilitated by government

The role of central government is not to impose solutions. But central government can promote best practice by aggregating information on high street successes and failures in a single knowledge bank. Inquiries into the progress of the Portas Pilots had to invoke the Freedom of Information Act to see what local councils spent their award money on. The Government should proactively disseminate information on retail and help spread ideas that help local high streets flourish, as well as supporting more formal academic reviews. It should also not be afraid of showing where projects fail as well as succeed. This may need a degree of distance, with the knowledge bank at arms-length from DCLG, so failures are more likely to be acknowledged. This should not focus on *process* goals, (e.g. lower car use) but instead on high street profitability, the ultimate indicator a high street is serving the public.

In addition, new and serious pilots are necessary. The Portas Pilots gave the impression of simply trying to hit as many constituencies as possible, which was regrettable as the Mary Portas concept of trialling new ideas was a sensible one. A small sum (perhaps £5 million), should be made available to BIDs to trial new high street configurations. These experiments should not simply pay for routine ideas (e.g. cleaning or street markets). It should be about genuinely different ideas about how a high street might work. This funding should be far more concentrated. The £100,000 maximum for each Portas pilot barely covers the cost of an office and a couple of employees for a single year – hardly enough to allow experiments or new policies to be tested on a reasonable scale. The commitments should be large enough to pay for serious experiments and decent evaluation, and could be matched by retailers or landlords themselves. It is likely that this sum would have to be around £250,000 in government funding for each pilot. Often these pilots are likely to focus on blending the internet and shopping as an experience. Three ideas suggested to us are below:

- **One-drop shopping.** This would be a high street where individuals browsed and noted what they wanted in different shops, but ordered it and had it delivered at a later date in a one-off package. This would allow the customer to see physical goods but not have to worry about transport to home or being overloaded. This would let retailers know if people were making decisions about what to buy using their physical stores, which might justify keeping particular stores open even if online shopping was growing. This would have to be carefully monitored as delivery is currently a key issue for retailers and consumers, but it could trial ways to take the difficulty of having multiple deliveries out of shopping and helping retailers finding a way to manage delivery together.

- **Pick-up points.** This involves the creation of a single place in town where items ordered via the internet could be picked up, (as with Amazon lockers, an idea already being trialled), but managed by a single body or organisation. Again, instead of having multiple deliveries, shoppers could choose to have the items they wanted all left at a particular site. This would mean that they could pick them up at a time convenient to them (e.g. after work). They might then go for a coffee or to a particular store while they were there, combining the best of the internet and physical retailing experiences.
- **Try before you buy.** For some shopping items, there is a desire to have a final look before an item is purchased. It could be that a certain number of items are selected on the internet and then tried on (e.g. certain clothes), with the option of not purchasing after seeing it. This could be combined with other ideas such as those above. The reduction in lower stock levels and other areas could help pay for this, and once again, the retail destination would benefit from higher footfall.

We do not know if these or any other ideas would be successful. But if they were tested by a couple of BIDs and evaluated properly (and publicised), along with other concepts that come forward and can be shaped into viable proposals, we will have information that can be used by high streets in order to work out how they might survive in the new retailing era. Not by restricting competition but embracing new ways to serve consumers.

9

Internet and Out-of-Town Retail – Accepting People's Choices

Accepting consumer choice in the retail sector and abolishing Town Centre First

The previous chapter discussed how to help struggling high streets. But high street retail is not the only legitimate shopping option. If people want to purchase goods online, or to go with their family to an out-of-town centre, they should be free to do so. There must be a level playing field between different types of retail, with consumers having the final say about how the retail sector looks. The new high street BIDs have the best chance possible of providing customers with what they want. But it is about improving, not replacing, wider consumer choice. What we need are physical retail hubs that are attractive enough that people continue to go to them, regardless of where these hubs are located.

Town Centre First must be abolished. It fails on both social and economic grounds. The only area where it might have some kind of positive benefit, (although it should be emphasised there is no firm evidence for this), is in making retail centres accessible for those on low incomes. But this could be achieved through an Access First policy, without dramatically lowering incomes, (particularly for low income workers), and limiting social interaction. Town Centre First should be replaced by a statement that people have the right to shop where they prefer, that retail hubs should be accessible for all, and this is the guiding principle for policy.

Town Centre First should end for social reasons as well as economic ones

Many defend Town Centre First on social grounds. In fact, abolishing Town Centre First will improve social interaction as well strengthening the economy. The current policy creates a false and arbitrary distinction between social activity on the high street deemed 'good' or in out-of-town centres, deemed 'bad'. In reality Town Centre First prevents the retail industry from delivering the social shopping experience people want. As discussed earlier, out-of-town shopping is actually more social than high street shopping. By two-to-one, visitors to out-of-town centres go with other people, negating many of the complaints about Town Centre First. Those who argue that we should be concerned about increasing social interactions should support ending Town Centre First.

Abolishing Town Centre First means higher standards of living for all

In Chapter 4 we presented figures on the cost of current policy. These showed that for a low income family, Town Centre First reduced their income by at least seven per cent due to higher costs for food and clothing alone. For other socio-economic groups, the cost of Town Centre First is still considerable. The removal of Town Centre First should increase the real incomes of the bottom 10% by at least 7% over time as shops move to more productive store formats. The end of Town Centre First would reduce economic hardship for the poorest among us, as well as raising general incomes. For average households this would be worth nearly £1,000 a year.

Wider standards of living, more than just pounds and pence but related to convenience, ease and comfort, would also be boosted. Removing Town Centre First would make shopping more convenient and fit with the needs of modern life. Again, as was discussed in chapter 4, the reasons that people's shopping habits have changed is because their lives and so needs have changed. Retail policy should reflect, not oppose that.

Ending Town Centre First would boost the economy and be politically astute

As Chapter 4 showed, Town Centre First is an anti-competitive, economically destructive policy that raises prices for consumers and cuts productivity. The needs test which Town Centre First applies entrenches large established stores' vested interests and damages growth, competitiveness and productivity. Ultimately productivity is the long term determinant of living standards.

> "The removal of Town Centre First should increase the real incomes of the bottom 10% by at least 7% over time as shops move to more productive store formats"

But removing Town Centre First will also create a short term economic boost. Without Town Centre First we would see more out-of-town development. New retail developments are sorely needed. The stock of retail property is older than in any other economic sector, with roughly two-thirds pre-dating the 1940s.[156] Other than in a few areas, the sector is frozen in time, and using buildings that are simply no longer effective for modern retail. Replacing these would create a short term spur to economic activity and GDP.

This is not to say that we would see many huge new supermarkets open up. It is likely that new centres will open up which include large supermarkets but are also about physical experiences. More space will be given to restaurants and cafes, new show-room style shops as well as large supermarkets and stores to anchor the development. Of course, it is possible new standalone supermarkets could open up in some areas, if that is what some consumers want. It is impossible to centrally predict just how retail will expand. But what is built will usually have to offer something that the internet cannot. Beyond that, it is impossible to say how things will turn out in future.

It is clear that since the 1960s, billions of pounds worth of new retail investment has been lost through planning delays and refusals.[157] By changing policy and allowing business to get to work, new investment and employment

156 *Barker Review of Land Use Planning; Interim Report – Analysis*, K Barker, HMSO, 2006

157 *The Challenges of Attracting Investment back to the High Street*, Op cit

opportunities could be rapidly delivered, precisely what the economy needs. Ernst and Young estimates companies are sitting on UK cash reserves of around 6.6% of GDP.[158] The government exhorts business to invest, yet it supports policies that discourage investment. Further, this short term boost would also ensure higher future productivity by equipping the retail sector with modern stores that can cope with modern needs – a win-win situation.

If politicians did decide to remove Town Centre First they would show they have policies designed to help increase living standards. Those that oppose this relaxation would have to say what they would do to provide an equivalent boost in income. Similarly, those who oppose the proposals around new BIDs, which would have strong incentives to try to reduce costs, would have to say why the current situation of high vacancy rates, and smaller and less well situated stores should continue. In the light of the huge pressure on household incomes, now would be a good time to change retail policy and a hard time to oppose such reforms.

Access First and the Community Right to Buy are better retail policies than Town Centre First

The one argument about out-of-town retail which is not refuted by the evidence (though neither is it supported) is the worry that some may be excluded from retail spaces. No doubt as the retail environment reconfigures itself, some consumers will find that their shopping has become more convenient, while others will find it has become less so. We are naturally most concerned with the accessibility of retail spaces to the poorest, as they are the least likely to own cars and less likely to go online. However, this problem is best solved by ensuring that there are adequate public transport links so all can access major new retail sites. At present we actively restrict the mobility of low income customers. We limit the amount of parking that retail establishments can legally provide. We tend to emphasise public transport to town centres. Left to their own devices, retail stores will allocate a large amount of available space towards parking and other uses. If retailers have to limit the number of car spaces they may introduce charges to reduce demand and increase revenue. That will have the impact of reducing accessibility for low income shoppers.

This policy of Access First should not be taken as assuming that people have a right to shopping spaces, particularly if they act in an anti-social manner. This is not about the fundamental right of anti-social individuals but a requirement that those who are on low incomes are not automatically excluded from retail and social hubs by transport issues.

Another sensible retail policy, but one already in operation, is the Community Right to Buy. This allows local communities to have first right of refusal for the last shop or public house in an area. This does not mandate it staying open, but where people do not want to see it close, facilitates it remaining in business. This is a much more proportionate response to concerns about access (if for example there is no shop for miles, those who are mobility impaired may struggle).

The limited valid concerns Town Centre First tries to address can be much better addressed through other policies, without the consequence of pushing low income shoppers toward more expensive and inconvenient goods and services, nor imposing very large scale social and economic costs.

158 *ITEM Club; Spring 2011 forecast*, Ernst & Young, April 18, 2011

Continuing to let the internet thrive must be central for retail

The internet's rise means that people now have an infinitely wider choice and smaller search costs for goods than they did previously, and of course these goods can often be obtained at lower prices than ever before. This is a state of affairs to be celebrated. The internet has a vital role to play in satisfying the demands of consumers and increasing our standard of living, and it should continue to grow as a part of the retail landscape so long as that is what consumers want.

This growth must be recognised as the key shift within retail and not stifled or attacked. Measures to try to push consumers to spend offline are an assault on productivity and people's choices. Rather than seeking to stack the odds against online shopping, politicians should take forward the measures in the previous chapter to give high streets the tools they need to have a level playing field. In particular, measures such as the idea of an online sales tax are impractical, uncompetitive, and unfair. The idea the lower costs of online shopping are an unfair advantage would make any attempt to provide higher productivity or lower prices for customers the basis for government action.

A bright and multi-faceted retail future

This report is about equipping the UK with a retail policy fit for the 21st century. It has tried to tackle head on the current shifts around online and physical retail. It has shown the deleterious economic effects of Town Centre First and the need for increasing the prevalence and powers of retailers on high streets though newly strengthened BIDs. It has argued for limited regulation. In doing so, this report has been realistic about the challenges that the retail sector now faces, and not pretended these changes are minor or can be wished away. It has not tried to be prescriptive, or pretend that one size or one solution will solve all problems. This is not the role of policy. The role of policy is to help the retail sector focus on consumers. What high streets or out-of-town centres look like is not a job for government policy makers to dictate but a matter for the British consumer.

All too often there is a sense of gloom in discussions about retail. But looking forward, we should be optimistic. There has never been a better time to be a consumer. Standards in retail are high. Levels of customer service are increasing. The options available, despite government impediments, are growing. The shift towards online retail will not result in solitude and alienation of the public. It will be better for all of us. People will still go shopping, whether in towns or out of it, and they will often do so with other people. When they need just to purchase something cheaply and with minimal hassle they will either use a small convenience store or probably purchase it online, saving valuable time for leisure or other pursuits.

The future is a bright one where a variety of options will be available. As retail adapts to this new century, the quality, choice, experience and convenience will get better for the average customer – and that is something to celebrate. The policies recommended in this report will ensure that government recognises and helps facilitate this new and better reality.

Policy Exchange

Retail has been undergoing a shift to 'retail as leisure' for some time. The internet has hugely accelerated this process. No longer is there a need to go shopping in the traditional sense. But people still want to go shopping to attractive and social retail destinations.

Unfortunately retail policy remains stuck in the 1950s vision of many small high streets visited multiple times each week by local housewives. All too often the needs of consumers are ignored. A restrictive policy called Town Centre First has cut retail productivity, with the average household losing around £1,000 a year due to higher food and clothing costs alone. Not only that, the policy ignores by two-to-one people shop in out of town destinations with others, making it actually more sociable than high street shopping. This report calls for the ending of this counter-productive policy.

It also highlights many high streets fail due to poor council management, and proposes that retailers should be able to create new management companies who control policies on areas like planning, parking, lavatories, and operate the day-to-day tasks in areas such as cleaning. This will allow those that can compete with out-of-town and in-town shopping centres to do so.

On those high streets simply too small and outdated to survive, this report proposes shrinking or converting whole high streets to much needed housing and office space, ending current dereliction.

21st retail will be consumer-orientated, leading to higher living standards and richer social interaction. It is time for 21st century retail policy to catch up with a sector already focusing ever more on quality, choice, experience and convenience.

£10.00
ISBN: 978-1-907689-58-1

Policy Exchange
Clutha House
10 Storey's Gate
London SW1P 3AY

www.policyexchange.org.uk