

**Report of Director of City Development**

**Report to Executive Board**

**Date: 9<sup>th</sup> October 2013**

**Subject: Proposed Levy on Large Retail Units ('the Supermarket Levy')**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: <b>10.4 (3)</b> Appendix number: <b>Appendix 1</b>	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

**Summary of main issues**

1. A proposal to introduce an additional business rate levy of 8.5% for retail units with a rateable value of £500,000 has been introduced by the Local Works campaign group, being termed the 'Supermarket Levy'. This was noted and the subject of a resolution of Council in July 2013 for the Director of City Development to bring a paper for consideration.
2. The key issues covered are: the nature and location of those units in Leeds; the potential income generated by the levy in Leeds; evidence from Northern Ireland and Scotland where this is already legislation; likely impact upon city and town centres; reference to the Community Infrastructure Levy Draft Charging Schedule, 'The Portas Review – an independent review into the future of our high streets' undertaken by Mary Portas and future city centre development.

**Recommendations**

- 3 Executive Board is recommended to:
  - (i) agree that the proposal, in its present form, is not a feasible measure at this time and could affect the viability of important development and regeneration projects that would create jobs, but should be kept under review by officers
  - (ii) note the position of Leeds City Council which is to seek to significant contributions from large format retailers in the form of business rates and

planning contributions, which, in the future will be under the Community Infrastructure Levy, whilst not impairing the viability of important development and regeneration projects that are anchored by large retailers;

- (iii) note the position of planning policy in Leeds and the role of the planning system in seeking to ensure supermarkets are located appropriately, meet identified needs for retail capacity, and support regeneration, employment and the vitality of existing town centres;
- (iv) note the wider work of the Council in supporting town and district centres and independent retail; and
- (v) instruct officers to continue to agree with supermarkets a clear commitment to job creation and support to local residents to secure employment and apprenticeships, and contribute to the vitality of existing town centres in Leeds.
- (vi) note that the Chief Officer for Employment and Skills is the officer responsible for the implementation of recommendation (v).

## **1 Purpose of this report**

- 1.1 This report has been prepared in response to a resolution of Council on the 1<sup>st</sup> July 2013, as follows:

*'This Council notes the campaign by the Local Works group to establish a Supermarket Levy on stores with a rateable value in excess of £500,000 in Leeds and in areas throughout the country. Such a levy could generate up to £7.2m per annum for the Council which could then be used to fund growth initiatives and support local town and district shopping centres that have suffered during the economic downturn.'*

*This Council further notes the implementation of similar proposals in Northern Ireland and while not necessarily subscribing to that exact scheme believes that similar proposals could bring benefits to people in Leeds.*

*Council is aware of the need to garner support from local people and would also wish to discuss any proposals in detail with large retailers before any policy is implemented.*

*This Council believes that this issue should be explored in Leeds and therefore calls on officers within City Development to bring forward a report to Executive Board exploring the options open to the Council in more detail.'*

- 1.2 The report sets out the need for the Council to have a considered approach to a proposal by lobbyist group, Local Works, to introduce an additional levy on large retail units.

## **2. Background information**

### **2.1 The Sustainable Communities Act 2007**

- 2.1.1 The Sustainable Communities Act 2007 aims to promote the sustainability of local communities. It recognises that local people know best what needs to be done to promote the sustainability of their area, but sometimes they need central government to act to enable them to do so. The Act provides a channel for local people to ask government to take action. The scope of the Act is very broad, covering economic, social and environmental issues and a useful mechanism for local authorities to submit proposals that help improve the wellbeing of their communities. The 2 key requirements of the 2007 Act were that:

- local authorities would be invited to make proposals which would promote the sustainability of local communities; and
- arrangements would be made for the production of local spending reports which would map the level of public expenditure in each local authority area.

*(Memorandum to the Communities and Local Government Commons Departmental Select Committee. Post-Legislative Scrutiny October 2012)*

- 2.1.2 The Act was the result of a five year campaign; the earlier Sustainable Communities Bill was put forward as a Private Members Bill and had cross party support as well as widespread support across the country. An amendment to the Act was

introduced in 2010 to help improve the management of proposals received. During the first phase, over 300 proposals were submitted by local authorities with 199 of these being shortlisted. Since the second invitation was issued in December 2010 only a small number of proposals have been submitted and consideration is being given to extending powers to town and parish councils.

## **2.2 The Proposal**

2.2.1 Local Works is a coalition of over 100 national organisations campaigning to promote the use of the Sustainable Communities Act 2007 and recently has lobbied local councillors in respect of the current proposal.

2.2.2 The Local Works proposal for large retail units is that the Secretary of State:

- gives Local Authorities the power to introduce a local levy of 8.5% of the rate on large retail outlets in their area with a rateable annual value not less than £500,000; and
- requires that the revenue from this levy go directly to the Local Authority in order to be used to improve local communities in their areas by promoting local economic activity, local services and facilities, social and community wellbeing and environmental protection.

2.2.3 Local Works believes that supermarkets have had a negative impact upon our communities by closing down local, independent shops, reducing choice and quality, reducing the number of local jobs available and removing large amounts of money from local economies whilst putting little back into those areas.

## **3 Main Issues**

### **3.1 The Proposal – scope and clarity**

3.1.1 The proposal is introduced and promoted by Local Works as an additional levy on supermarkets; the title of the proposal, the communication with councillors and the media debate all refer to supermarkets alone. The basis of the proposal is the negative impact of supermarkets on communities yet little evidence for this is given.

3.1.2 The proposal, in reality, will impact on all large retail units with a rateable annual value not less than £500,000. Supermarkets are only a small proportion of the type of units affected both nationally and within Leeds local authority area.

### **3.2 Large Retail Units with a Rateable Value not less than £500,000 in Leeds**

3.2.1 In August 2013, an analysis of rateable value of not less than £500,000 carried out for the Leeds local authority area showed that there are 78 premises, which fall into this category, and would therefore be subject to the additional levy. Of these, 24 are supermarkets and 54 are other retail. Geographically, 28 of the units (or 36% of the total) are within the city centre and only one of these is a supermarket - Morrisons in the Merrion Centre. Outside the city centre 50 premises fall into this category and it is fairly evenly split between supermarkets (23) and other retail (27). The spreadsheet attached at Appendix 1 shows a breakdown of the 78 premises by location.

- 3.2.2 The rates currently paid by these premises annually are £39,604,035. If the additional levy of 8.5% were applied, it would generate an additional £3,366,343 annually, with less than half of this contributed by the supermarkets. This additional revenue of approximately £3.5m would provide a significant additional annual sum that could be directly targeted at communities and independent retail businesses to further support the Council's existing town and district centre programme and other initiatives.
- 3.2.3 Often these large retail units can have significant value as employers, particularly outside the city centre. A broad estimate suggests that a total of just under 10,000 people are employed by supermarkets across Leeds. This includes all eight supermarkets represented in all 67 stores in Leeds regardless of size. It has not been possible to generate an accurate figure for the 24 larger supermarkets which would be subject to the levy but nevertheless it provides an indication that employment within supermarkets is an important contributor to the Leeds economy. Again, in terms of employment in the other, larger retail units, it is difficult to provide accurate figures on all of the retailers listed because retailers only provide details on the total number of stores and employees nationally and some not at all. However, we can see by looking at some of the stores this translates into a broad average of employees per store of 84 in B&Q, 116 in Marks and Spencer, 184 in Primark and 214 in Sports Direct again highlighting the significance of these large retail units as employers and providing a useful benchmark.

### **3.3 Planning Considerations**

- 3.3.1 National and local planning policy directs new retail and other town centre uses towards existing centres. The national planning policy framework states "*Planning policies should be positive, promote competitive town centre environments and set out policies for the management and growth of centres over the plan period. In drawing up Local Plans, local planning authorities should recognise town centres as the heart of their communities and pursue policies to support their viability and vitality*". This approach is reinforced entirely by the draft Core Strategy for Leeds which seeks to strengthen and protect existing centres and direct new development accordingly.
- 3.3.2 Alongside the Local Works proposal, Executive Board is also considering a paper on the Community Infrastructure Levy Draft Charging Schedule, introduced as part of the Community Infrastructure Levy charge on new floorspace in Leeds. The proposed charges have been set in the context of the Council's ambition for sustainable growth for the city's economy and its recovery from the recession. The need to generate financial contributions to meet the infrastructure needs of the city must be balanced against the danger of high rates which undermine future economic growth. In particular, it is noted that there is a significant change in the retail sector moving towards online stores, a greater use of the internet for supermarket shops, a reduction in the weekly supermarket spend, the sector rationalising its store presence and the continuation of chains going into administration. It is also recognised that, whilst awaiting the impact of Trinity and Victoria Gate in the city centre, it is appropriate to provide a cushion to this sector as a whole. Finally, recent market activity has indicated that major food retailers have cut back on their requirements this year resulting in a 30% drop in land prices. The paper recommends that the proposed Community Infrastructure Levy rate for

retail is reduced between 30-78% from the previous draft in recognition of the fragile state of the retail economy.

### **3.4 Supermarkets and Town Centre Regeneration**

- 3.4.1 As the Local Works proposal cites the negative impact of supermarkets as key in this debate, this section of the report seeks to examine available knowledge and research into the relationship between supermarkets and town centres.
- 3.4.2 Many of Leeds' centres benefit from having large supermarkets embedded within the fabric of the high street. These anchors ensure that the huge rise in trade diversion to supermarkets that has occurred over the last three decades is being retained within existing centres, rather than being diverted to out of centre locations. Supermarkets are part of our retail offer and have been for some considerable time; it is unlikely that demand for their services will diminish in any significant way.
- 3.4.3 There is considerable debate about the benefits of such stores within town centre locations, particularly regarding reduction in leakage of retail expenditure and the 'linked-trips' generated, the latter being shoppers combining their visit to supermarkets with other retail providers in the locality. Planning policy in Leeds already requires that stores within centres help to support existing services as the provision of parking for the supermarkets allows customers to access the centres, who may not otherwise have done so, and visit those other services in addition to the supermarket itself. However, to put this into context, it must be noted that most of the studies undertaken into the study area have been commissioned by the large supermarkets themselves.
- 3.4.4 New supermarkets proposed within existing centres must be assessed carefully to ensure that they are of an appropriate scale to the centre in which they are located. Too large stores can cannibalise trade from other independents along the high street, resulting in more floorspace but a far more sterile and less enjoyable shopping experience.
- 3.4.5 Studies on this topic are limited but do seem to suggest that when compared directly against out of centre stores, in centre stores can result in more linked trips to other town centre services.
- 3.4.6 It is already mentioned, at 3.2.3, that supermarkets are a significant contributor in employment terms. In Leeds the average number of employees per store, by the big four supermarkets, ranges from 128 (Sainsbury's) to 291 (ASDA) employees. Given this average, it is reasonable to assume that the numbers of employees in the largest stores will be higher than this average.
- 3.4.7 The Council has successfully worked with many retail employers and the leading supermarkets to support recruitment initiatives that enable local residents to access jobs and apprenticeships in new stores. This is achieved through partnership working with employers keen to recruit to entry level jobs from adjacent communities and or through S106 Planning Agreements that include employment and skills obligations on developments. From April 2012 to March 2013, 128 local people secured jobs with Tesco, Iceland, ASDA, Sainsbury's and Aldi. A further 34 job outcomes have been secured with supermarkets during the current financial year with plans in place to support recruitment through employment and skills

obligations on 4 planned developments that will generate over 500 new jobs subject to planning approval.

#### **4. Corporate Considerations**

- 4.1.1 Executive Board considered a paper in September which outlined the potential for Business Improvement Districts in Leeds and the contribution Business Improvement Districts could make to the creation and sustainability of thriving centres that add to the economic and social wellbeing of the city. The paper recommended that the Council should be supportive in principle to the Business Improvement District process and open to approach by the private sector. The Business Improvement District typically introduces an additional levy of 1-2% for businesses based on rateable value. At the time of writing, Executive Board were still to consider the paper and therefore further information will be presented at the October Board on the discussion held and decisions made.
- 4.1.2 The income generated by the proposed supermarket levy would be almost £3.5m. Whilst the charging mechanism is quite clear, how this will be billed and enforced is less so. A separate charge on top of an organisation's annual business rates bill would raise issues around non-collection and how any levy could be enforced. Any additional levy would incur administrative costs in terms of staffing, system and general collection costs which would reduce the potential net gain. It does appear that any income arising from this would fall into the revenue support grant from Government.

#### **4.1 Consultation and Engagement**

- 4.1.1 The Association of Town Centre Management (ATCM) has expressed the following views on the Supermarket Levy based upon two points;
- the general view regarding this type of activity and how it fits into the wider issues facing business and the additional burdens of taxation; and
  - how this would compare to the mechanism of Business Improvement Districts.

While this proposal is within the remit of the Council, the ATCM believes that there are serious issues to consider before enabling this levy. By creating additional levies of up to 8.5% the increased costs to business are high and may create a critical point in a business where they might leave a region, borough, city or town to operate in an area of lower costs or implement redundancies to reduce costs.

- 4.1.2 The ATCM also considers that the likelihood of unintended consequences is compounded by the current mechanism used to calculate business rates, which is acknowledged by the town centre industry to be flawed, by negatively distorting the behaviour of consumers, businesses and investors. The business rates system is highly inflexible and seeks only to shift the burden of taxation amongst property based businesses in accordance with trade prior to the emergence of the Internet as part of everyday life for consumers. This has forced retail stores both large and small to close. The ATCM believes comprehensive modernisation of the system is needed to promote urban regeneration, protect businesses, support employment but, most importantly, prevent business tax contributions to local public services from collapsing. Increasing costs for some property based businesses only

entrenches these problems rather than addressing the issue of modernisation. The ATCM believes that any proposal must offer clarity as to what the new levy would be used for, how it would be collected, implications to changes in valuations and which valuation the 8.5% levy would be based upon.

- 4.1.3 To convince those affected by the proposed levy of the benefits of the policy, full transparency and consultation is a pre-requisite. Overall, the ATCM takes the view that there are too many omissions for this levy to be practical in its current proposition to be effective.
- 4.1.4 In addition, consultation has been undertaken with city centre managers within the Key Cities Group. Interestingly, similar legislation is already in place in both Northern Ireland and Scotland. In Northern Ireland, the Rates Amendment Act imposes an 8.52% tax on the turnover of all stores that gross more than £500,000 per annum for 3 years from 2013. Belfast is greatly opposed to it and the City Centre Manager reports that the levy has left unlettable vacant units in the retail core. In Edinburgh the Public Health Levy applies to businesses with a rateable value over £300,000 that sells both alcohol and tobacco; an exercise to collect initial feedback is underway. Bristol and Nottingham also oppose the introduction of the levy. Bristol is proposing to take a recommendation to full Council on 10<sup>th</sup> September for the proposal to be rejected; Bristol has 34 stores that fall into the Supermarket Levy category in the city centre.

## **4.2. Equality and Diversity / Cohesion and Integration**

- 4.2.1 An equality and diversity screening has been completed and attached. It indicates that there are no specific implications for equality and diversity as a result of the recommendations.

## **4.3 Council policies and City Priorities**

- 4.3.1 The discussion will impact upon the delivery of the following City Priority Plan priorities and Core Strategy Objectives:
- Supporting the sustainable growth of the Leeds' economy;
  - Supporting the continued vitality, economic development and distinctiveness of the City Centre as the regional centre; and
  - Promoting the role of town and local centres as the heart of the community which provide a focus for shopping, leisure, economic development and community facilities and spaces.
- 4.3.2 The Leeds Growth Strategy (2011), produced by the Council, recognises retail as a significant sector within the Leeds economy and actively supports its development. It states that the sector is important to the city because:
- *“It’s a big slice of our economy – it accounts for nearly 12% of output. We are the headquarters location for big names like Asda. And crucially, over 1 in 5 businesses and more than 1 in 7 jobs in Leeds are in the wholesale and retail sector, so its fortunes affect many people.*
  - *It complements other parts of the economy and offers jobs at all skills levels, from entry level to managerial. It’s also an area where budding entrepreneurs can make their mark.*



- *It is part and parcel of making the city a great place to live and helps to attract investors, entrepreneurs and visitors. Great cities have great centres, great shops and great bars, restaurants and accommodation. Together with the new arena and city park, new retail will breathe life into the city”*

#### **4.4 Resources and value for money**

- 4.4.1 The Council could benefit from the potential additional revenue raised by the Supermarket Levy but this would have to be balanced against any potential negative effects introduction of the levy may have on the Leeds economy (see 4.6.1).
- 4.4.2 There will also be associated additional costs in administration, collection and enforcement which are unclear.

#### **4.5. Legal Implications, Access to Information and Call In**

- 4.5.1 The information contained in Appendix 1 is exempt under Access to Information Rule 10.4 (3) as it contains information relating to the financial or business affairs of specific companies in Leeds (including the authority holding that information). It is considered that the public interest in maintaining the content of Appendix 1 as exempt outweighs the public interest in disclosing the information.
- 4.5.2 It is important to note that Leeds City Council does not have any separate power to introduce a local levy of this nature but benefits from the general power of competence in the Localism Act. This gives local authorities the power to “do anything that individuals generally may do” and of course no individual can simply impose their own additional, local system of taxation on others. Under the Act, the Council could make a proposal for such a levy if it considered this “would contribute to promoting the sustainability of local communities” and provided it had regard to the matters in the Schedule before making a proposal.
- 4.5.3 Additionally, should Members be minded not to agree the recommendations, consideration should be given to whether the Council, having received representations from the Local Works group, ought reasonably to invite representations from those likely to be affected by such a levy, before deciding to make a proposal for such a levy under the 2007 Act.
- 4.5.2 This report is subject to call in.

#### **4.6 Risk Management**

- 4.6.1 There are no direct risks associated in the consideration of this proposal by Local Works. Whilst it is acknowledged that the additional revenue of approximately £3.5m is a significant sum that could be directed to communities to further support the Council’s existing town and district centre programme and other initiatives, when considered in context of the Council’s total annual budget, this total amount represents less than 0.5% of the Council’s total annual budget for 2013/14. Members are advised that a decision in favour of supporting the proposal could also lead to risks of loss of employment and vacant units in existing centres should the levy become legislation.

## **5 Conclusion**

- 5.1 Although, on initial consideration, the potential sums generated by the proposed levy are considerable, several factors point to the proposal being ill-timed at present.
- 5.2 The proposal takes a very broad brush approach and could be interpreted as being too blunt a tool. On the one hand it targets the kind of city centres stores that the Council should be seeking to encourage such as Primark, Debenhams, House of Fraser, Marks and Spencer's and Harvey Nichols; whilst on the other hand it does not target smaller supermarkets operated outside of town centres by the four largest supermarket operators when they fall below the size threshold. As noted in 3.2, 36% of the total units affected are in the city centre, with only one supermarket included.
- 5.3 Vacancy levels nationally are a cause for great concern and there is little doubt that the rise of out of centre superstores has had an overwhelmingly negative impact on our town centres. The levy is an opportunity to invest more money into our centres and could be a crucial factor in breathing life back into our towns. However, supermarkets are not the only factor in town centre decline. Not only has the rise in use of online stores had an effect but, as 'The Portas Review' has shown, many town centres need to make real efforts to improve, to be able to offer customers the experience they expect. It can be convenient to blame supermarkets for the decline of our town centres but the reason supermarkets are successful is that people continue to spend money there.
- 5.4 At a local level, many of the organisations that are affected provide many benefits to the local economy in terms of employment. If such a levy were imposed, there is a possibility that some of the organisations may move their businesses elsewhere and indeed close their units permanently. This has implications in terms of empty units as well as the loss of employment. Certainly the early evidence from Belfast seems to suggest that this is a very real possibility and given the general retail trends and the call for caution demonstrated in setting the Community Infrastructure Levy charging schedule by the Chief Planning Officer, the proposal at the moment seems ill-timed.
- 5.5 In conclusion it is considered that, for the reasons outlined above and the very early experience from other cities, this proposal is premature. In addition, there are questions around the legal feasibility. There is already considerable work taking place across the council which focuses on the retail sector; the proposed CIL charging schedule for retail will secure contributions from new development, although recognises the fragile state of large format retail, and great progress is being made with large employers on local jobs and skills. Large retail units do already make significant contributions in business rates and we should recognise their importance in regeneration and employment when located within existing centres.
- 5.6 At the same time, however, the council will continue to work with small, independent businesses within the existing town and district centre programme and through city centre management to retain and strengthen the viability of the retail offer in Leeds.

## **6 Recommendations**

### 6.1 Executive Board is recommended to:

- (i) agree that the proposal, in its present form, is not a feasible measure at this time and could affect the viability of important development and regeneration projects that would create jobs, but should be kept under review by officers
- (ii) note the position of Leeds City Council which is to seek to significant contributions from large format retailers in the form of business rates and planning contributions, which, in the future will be under the Community Infrastructure Levy, whilst not impairing the viability of important development and regeneration projects that are anchored by large retailers;
- (iii) note the position of planning policy in Leeds and the role of the planning system in seeking to ensure supermarkets are located appropriately, meet identified needs for retail capacity, and support regeneration, employment and the vitality of existing town centres;
- (iv) note the wider work of the Council in supporting town and district centres and independent retail; and
- (v) instruct officers to continue to agree with supermarkets a clear commitment to job creation and support to local residents to secure employment and apprenticeships, and contribute to the vitality of existing town centres in Leeds.
- (vi) note that the Chief Officer Employment and Skills is the officer responsible for the implementation of recommendation (v).

## **7 Background Documents<sup>1</sup>**

### 7.1 None.

---

<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.