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Consultation Document

Business Rate Relief for Charities, Social Enterprises and Credit Unions – Recommendations from an independent report to the Welsh Government

Date of issue: 23 April 2013

Responses by: 19 June 2013

Overview

In October 2012, the Welsh Government responded to the recommendations of the Business Rates Review Wales, an independent report from the Business Rates Task and Finish Group.

Recommendation 15 proposed consultation with the charitable and retail sectors to review the business rates reliefs that are available to charities and social enterprises.

The Minister for Economy, Science and Transport asked the Task and Finish Group to undertake this consultation and prepare specific recommendations on this issue.

Their independent report has now been published and makes ten recommendations as well as further issues for consultation. This report is available and it forms the key basis for this consultation below.

The Welsh Government would like your views on these recommendations. These responses will inform any further action that is taken. This consultation will run for eight weeks and build on the engagement already undertaken by the Task and Finish and the previous call for evidence.

How to respond

Responses can be emailed to the Business Rates Mailbox at businessrates@wales.gsi.gov.uk

They can also be posted to:

Business Rates Policy, Department for Economy, Science and Transport, QED Centre, Main Avenue, Treforest Estate, Pontypridd, CF37 5YR

Further information and related documents

Large print, Braille and alternative language versions of this document are available on request.

Contact Details

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Data Protection

How the views and information you give us will be used

Any response you send us will be seen in full by Welsh Government staff dealing with the issues which this consultation is about. It may also be seen by other Welsh Government staff to help them plan future consultations.

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The Welsh Government intends to publish a summary of the responses to this document. We may also publish responses in full. Normally, the name and address (or part of the address) of the person or organisation who sent the response are published with the response. This helps to show that the consultation was carried out properly. If you do not want your name or address published, please tell us this in writing when you send your response. We will then blank them out.

Names or addresses we blank out might still get published later, though we do not think this would happen very often. The Freedom of Information Act 2000 and the Environmental Information Regulations 2004 allow the public to ask to see information held by many public bodies, including the Welsh Government. This includes information which has not been published. However, the law also allows us to withhold information in some circumstances. If anyone asks to see information we have withheld, we will have to decide whether to release it or not. If someone has asked for their name and address not to be published, that is an important fact we would take into account. However, there might sometimes be important reasons why we would have to reveal someone's name and address, even though they have asked for them not to be published. We would get in touch with the person and ask their views before we finally decided to reveal the information.

Business Rate Relief for Charities, Social Enterprises and Credit Unions

**Report for the Minister for
Economy, Science and Transport**

By

**The Business Rates Task and Finish
Group**

April 2013

Executive Summary

Following the publication of Business Rates Wales Review 'Incentivising Growth' in June 2012, the Business Rates Task and Finish Group was asked to examine its proposals on business rates relief for charities, social enterprises and credit unions.

These were:

We recommend the Welsh and UK Government consult with charitable and retail sectors to review the current rating provisions for charities and social enterprises. Consideration be given to:

- Limiting rate relief to 50% for larger charity shops trading in new goods.
- Placing an upper RV limit on the definition of retail premises eligible for charity relief.
- Introduce tighter qualifying criteria e.g. must be philanthropic, providing social or community benefit AND/OR must be actively using all the premises.
- Limit the number of retail units eligible for charity relief in a given town centre OR limit to only one per charity in a given area.
- Make rate reliefs available to social enterprises, such as credit unions, which are currently not eligible.

A call for evidence was issued that sought views on key issues such as whether the rate relief available to charities should be changed and the impact that this might have on the high street. We also organised a consultative workshop in February which brought together charity organisations and other stakeholders to discuss the issues.

The results from our evidence gathering exercises are set out in detail in the Annexes. The desk research we undertook analysed the upward trend in the number of charity shops in the UK – currently over 9,500 – and also the trend in the profitability of charity shops. It also looked at the localised impact of charity shops in specific areas where critics have pointed to effects on market distortion, retail competition, and the vitality of commercial areas within town and city centres – especially where the charity shops are selling new goods and/or are located in prominent positions on the high street with higher Rateable Values (RV).

The issue of unfair competition was raised and it seems to us that this is founded on the mandatory level of rate relief that charities obtain, coupled with the effect that this relief may have on rents. Charities counter these arguments partly by pointing to the high shop vacancy levels in town and shopping centres as evidence that the effects of charity shops are minimal.

However, the increase in the number of charity shops raised concern over "clustering" – ie, where a significant number of charity shops are concentrated in a relatively small area. We considered addressing this issue through the introduction of

zoning rules but decided against this because of complications in differentiating charity shops in the context of existing planning laws. **However, we did recommend that further consideration be given to enabling the aims of zoning to be realised.**

In our initial Business Rates Review we recommended that Business Improvement Districts (BIDs) should be promoted more widely in order to facilitate the regeneration of town centres in Wales. BIDs provide many positive tangible and intangible impacts within a defined area. **The recommendation is that charity shops should be encouraged to fully participate in BID schemes aimed at regenerating town centres.**

With regard to the decline of Welsh high streets we decided to recommend a measure linked to empty property rates to assist occupation of vacant shops and offices throughout Wales but particularly on the high street. **Our recommendation is that, any business which takes up new occupation of a property, which has been vacant for 12 months or more, would enjoy rate relief of 50% for the first year of occupation. We further recommend that a business occupying a RETAIL property in a town centre that has been vacant for 12 months or more would enjoy 50% rate relief for TWO years. In addition, social enterprises might have this 50% rate relief extended beyond two years at the discretion of the local authority.**

The decline of the high street in Wales has become a major policy issue and will need to be addressed by better planning policy and other strategic regeneration measures. This report has not attempted to address every problem but has focussed on key issues that currently create market distortions. The question of unlimited rate relief for all charity shops irrespective of size and location was therefore examined in detail.

The review group noted the extent to which the professionalism and commercial focus of the charity shop has increased markedly over the last twenty years. We then questioned whether businesses of the size and commercial sophistication of some of the larger charity shop chains should continue to receive mandatory rate relief of 80% - relief at levels not available to other retailers.

We are therefore recommending new thresholds for charity shop rate relief to help reduce current (and possible future) distortions to which the current mandatory 80% relief for all charity shop properties, irrespective of size, gives rise. **The group, therefore, recommends that the amount of rate relief available for larger charity shops occupying premises of higher Rateable Value be restricted to an upper RV limit of £36K and that other thresholds should be introduced as follows:**

- The full, mandatory rate relief of 80% will be available on properties with a rateable value (RV) up to £12K (the current upper limit for Small Business Rate Relief). All charity shops will receive 80% rate relief on the **first** £12,000 of the RV.

- Charity rate relief will then be reduced from 80% to 50% on the **next** £24K of rateable value, i.e. up to a maximum RV of £36K. All charity shops will receive 50% rate relief on the **next** £24,000 of the RV.
- For RVs in excess of £36K we recommend that the business rate relief falls to zero.

The above reliefs will be tiered, i.e. cumulative – as explained in Annex 3. Therefore all charity shops will receive some rate relief from business rates but the amount of relief they receive will be reduced in stages.

Another area of concern brought to the Group's attention was the issue of tax avoidance. The limiting of relief could support an **anti-avoidance measure by ensuring that all commercial premises that are occupied and used for charitable purposes by subjecting them to an upper RV limit of, say, £36K.**

Summary of Recommendations

Recommendation 1 - Use Planning Class

It is not recommended that a new Use Planning Class be introduced at this stage, but further consideration should be given to enabling the aims of such a change to be realised.

Recommendation 2 - Zoning

Any approach that is adopted to zone or limit the number of charity shops in a given area should be done at a devolved level of responsibility; this should be a matter for local authorities.

Recommendation 3 - Business Improvement Districts

Charity shops and their representative associations should be encouraged to fully participate as members of local organisations such as BID schemes that aim to rejuvenate and develop high streets in our towns and city centres.

Recommendation 4 - Bringing Long-Term Empty Property into Use

Any business which takes up new occupation of a property which has been vacant for 12 months or more would enjoy rate relief of 50% for the FIRST year of occupation.

Recommendation 5 - Bringing Long-Term Empty Property into Use

A business occupying a RETAIL property in a town centre that has been vacant for 12 months or more would enjoy 50% rate relief for TWO years. In addition, social enterprises may apply to have this 50% rate relief extended beyond two years at the discretion of the local authority.

Recommendation 6 - Tax Avoidance

The government should consider the following measure to tackle tax avoidance: all commercial premises that are occupied and used for charitable purposes could be subject to an upper RV limit of, say, £36K.

Recommendation 7 - Diversity on the High Street

New thresholds for charity shop rate relief should be created that will limit the amount of relief available for charity shops occupying premises of higher Rateable Value. These changes should be phased in for existing charity shops.

Recommendation 8 - Rateable Value Thresholds

The RV thresholds set out above should be reviewed at the time of the 2017 Rating List and subsequent Rating Lists. The threshold RVs may then rise or fall according to the tone of the List.

Recommendation 9 - Future Rating List

When the next Rating List for 2022 is introduced, consideration be given to reducing the mandatory 80% charitable relief to 50% for all charity shops and that as much as possible of charitable reliefs should be left to the discretion of the local authorities.

Recommendation 10 - Monitoring of New Goods Sales

To further address the issue of unfair competition on the high street, the amount of new goods being sold by charity shops be more effectively monitored by charitable organisations themselves (e.g. the CRA) - particularly in the run up to the Christmas period.

A. Introduction

1. Following the publication of the Welsh Government's Response to the Business Rates Review, the Task and Finish Group were asked to undertake more research and to engage on a further consultation on proposed changes in business rate relief for charities, social enterprises and credit unions in Wales.

2. Over the last few months, we have met various organisations to discuss issues related to the growth in the number of charity shops and to ascertain what is best for the future of our high streets. The main issues raised in these consultations, and in the research, related to competition and diversity in our town centres.

3. A key issue that we considered was the 80% mandatory relief on business rates that is available to registered charities. We looked at this issue from the perspective of competition and diversity on the high street and we sought answers to the following questions:

- Is the 80% mandatory relief for charity shops causing unfair competition with small independent retailers in our town centres?
- Is the availability of this relief leading to a situation where there are too many charity shops in some areas?
- Is this level of relief allowing charity shops to begin to dominate prime retail space on the high street?

4. In seeking answers to these questions we recognise that registered charities in Wales make an important contribution to community wellbeing – they do a fantastic job of raising funds to support good causes. However, the evidence presented to the Business Rates Review suggested that there were concerns among independent retailers about the absence of a level playing field on the high street which has led to a growing number of charity shops.

5. In this 'follow-on' report we have tried to ensure that our approach is in line with that of the original Business Rates Review which aimed to create incentives within the current rating system that will encourage business growth and investment rather than prescribe increased costs or more regulations.

6. To achieve this we have advocated measures that will introduce a more targeted approach to business rates relief schemes and encourage new approaches to investing in our town centres. We believe that, taken together, these measures offer a consistent and coherent approach to ascertaining what is best for the future of our high streets.

7. We hope that, together with other measures to create a level playing field between out-of-town developments and the town centre, they will improve the offering on the high street and strengthen the reputation of Wales as an attractive place in which to invest.

B. Background to the Investigation

8. The Business Rates Task and Finish Group was established in Autumn 2011 by the Minister for Enterprise, Business, Technology and Science. It has a remit to establish how the business rates regime in Wales could be used as a targeted policy intervention to encourage economic development and growth.

9. The final report of the Task and Finish Group entitled 'Business Rates Review: Incentivising Growth' contained 19 principal recommendations and was published in Summer 2012. The Welsh Government responded to that report in October 2012.

10. Recommendation 15 of the Business Rates Review in 2012 stated that:

We recommend the Welsh and UK Government consult with charitable and retail sectors to review the current rating provisions for charities and social enterprises.

Consideration be given to:

- Limiting rate relief to 50% for larger charity shops trading in new goods.
- Placing an upper RV limit on the definition of retail premises eligible for charity relief.
- Introduce tighter qualifying criteria e.g. must be philanthropic, providing social or community benefit AND/OR must be actively using all the premises.
- Limit the number of retail units eligible for charity relief in a given town centre OR limit to only one per charity in a given area.
- Make rate reliefs available to social enterprises, such as credit unions, which are currently not eligible.

11. The Welsh Government response to the Business Rates Review supported this recommendation to consult. This was based on attention given to the issue by a number of stakeholders and the fact that there are opposing viewpoints that would merit further consideration.

12. The Task and Finish Group held a call for evidence during November and December 2012. The call for evidence sought views on the following key issues:

- The levels of relief that are currently available to charities across all the types of non-domestic premises they occupy.
- Whether the relief available to charities should be changed and the impact that this might have based on the available evidence.
- Whether relief, or further relief, should be offered to social enterprises and credit unions as an incentive to support their work
- Any other evidence or examples that are relevant.

13. The call for evidence resulted in 103 responses being received. These responses were largely from charities and volunteers who support charities with at least 65 responses coming from these. Some charities sent a number of responses, for example one particular charity and their supporters contributed 11 responses. Five local authorities and the Welsh Local Government Association responded.

14. A sufficiently balanced analysis of the responses would be difficult to achieve given the dominance of responses from one sector. In addition, a small piece of research was commissioned to examine the evidence base.

15. Nevertheless, around 86 out of 103 responses sought to retain or improve the current relief provisions for charities. Eight responses sought changes mostly along the lines set out by the Business Rates Review; these responses tend to come from local authorities, local politicians and individual responses. 27 responses made comments on reliefs for social enterprises and credit unions.

16. On 25 February 2013, a consultative workshop was held in Cardiff that brought together interested stakeholders from a wide variety of viewpoints. A range of views were expressed and these have been considered in the production of the report.

17. Welsh Government Officials have provided secretariat support throughout this process.

C. Analysis of the Evidence

18. This section analyses issues of concern raised in our evidence gathering exercises. A fuller account is provided in Annex 1.

- ***Charity shop numbers***

19. There is no comprehensive official register of all charity shops. The Charity Retail Association (CRA) estimates that there are currently over 9,500 charity shops in the UK, with 460 of those in Wales. Data from a survey of Welsh Local Authorities, however, suggests that the number of 460 shops for Wales may be a substantial underestimate. The total number of charity shops in the UK has varied over time, but 2011 was the ninth consecutive year during which numbers have increased – the number of shops has nearly doubled in the twenty years between 1992 and 2012.

20. A number of factors are likely to contribute to change in charity shop numbers. The state of the economy has contributed to the recent increase, and the weak state of the property market has led to a greater willingness on the part of retail property owners to offer tenancies to charity organisations.

- ***Charity Shops and their functions***

21. Charity shops fulfil a range of functions including fundraising; providing cheap goods; recycling; advertising and promoting the charity's primary work; and providing opportunities for volunteering work. The balance between functions may be said to have changed somewhat in more recent periods as charities have begun to use their retail activities more intensively and professionally to raise funds.

22. Some charities have developed their range of retail outlets to the extent that they operate specialist shops (e.g. bridal shops; bookshops; second-hand furniture). Such specialist shops are more likely to be an acute competitor to other retailers of similar goods than are the general purpose charity shops.

- ***Charity Shop performance***

23. The majority of charity shops operate as subsidiaries of UK wide chains, e.g. just 4% of CRA members run nearly 60% of all charity shops. The reported total annual income from the shops of 74 surveyed charities in 2012 was £716.4m, which yielded profits of £175.1m. Improved profit levels each year are reported from 2008 to 2012, achieving a profit rise of 14.3% in the year to March 2012. In general, charity shops report a rising trend in average profit per £ of rent.

24. On average, sales of donated goods and earnings from recycled surplus stock and clothing are responsible for 85% of charity shop income, while bought-in or new goods, including Christmas cards, account for some 6% of the income generated. Bought-in goods may be more significant for some charity shops than for others, reaching highs of 13.4% against the average of 4.4% of the goods sold.

25. Staff and rental costs dominate overall charity shop expenditure, while local authority uniform business rates is currently of the order of some 1.6% of total costs.

- ***The location of charity shops***

26. While charity retail is a small part of total UK retail activity, its impact is felt in specific areas. Criticism of charity shops and their operation often relates to localised effects in terms of market distortion, retail competition, and perceived threat to the variety and vitality of commercial areas within town and city centres. Such effects are more noticeable in smaller retail centres and market towns.

27. A shift or enlargement in target customer base has affected the location of charity shops. The greater focus on maximising income has led to shops being located on arterial routes, where there is optimum accessibility for customers as well as to donors and volunteer staff. As the numbers of charity shops have increased, location decisions have become more of an issue for charity shop managers. In addition to general business costs, charity retailers have to take into consideration accessibility for volunteer staff and for the supply of donations. Location criteria are similar for all charity shops and, thus, a clustering effect is likely. In some cases clustering can be beneficial to individual charity shops by increasing customer footfall as customers may be drawn to visit more than one charity shop.

28. Charities have also begun to locate their shops in more prominent positions and some charities have also acquired markedly larger premises than the traditional norm, particularly those that require space for large items such as second hand furniture. Such premises attract higher Rateable Values (RV); however, the RV of premises occupied by charity shops varies appreciably between different parts of the country and also within cities and towns. Recent data indicates that Cardiff hosts 56 registered charity shops at an average RV of £19,152, while in Conwy, 30 shops occupied premises with an average RV of £11,854. Within Cardiff the RV for charity shop premises ranges from £1,925 to £147,000. There seems to be an increasing trend towards large shops with higher RVs.

- ***Competition and charity shops***

29. Charity shops experience competition from other charity shops; non-charity discount, second-hand, and value retailers; internet sites such as eBay; street markets, boot sales and house clearers. By 2011, however, it is other charities that are seen as the most significant competition for charity shops. All competitors affect the supply of donation stock, and charity shops also experience competition for both volunteer and paid staff.

30. Charity shops act as a competitor to mainstream shops, and are likely to impinge mainly on second hand book shops and clothing shops. As noted above, however, some charities have developed specialist shops, and these shops will pose a specific challenge to other retailers active in the same market niche.

31. On average new bought-in goods are a small percentage of the charity shop retail offer and often such new goods have direct connection with the mission of the parent charity (primary purpose goods). However, new goods sales can have a more

competitive impact at certain times of the year. There is evidence that some charity shops periodically stock appreciably more new bought-in goods than is the norm or average for the charity or individual shop, particularly during the Christmas period. Some shops also sell end-of-line and job-lot bankrupt stock when the opportunity arises. Such practices produce periods of acute competition to small independent retailers who often cannot match the sourcing capacity of large retail chains, whether these are charity shop chains or mainstream discount chains.

- ***Uniform Business Rates Relief***

32. Charity shops are cited as unfair competitors because they enjoy greater rate relief than that available to other retailers. Currently small retailers of any type may receive, under the Small Business Rate Relief scheme, 100% rate relief for property up to a £6,000 RV ceiling, but this relief tapers to 0% relief between £6,000 and £12,000. Charity shops enjoy mandatory relief of 80% of their rates bill on any sized property, with an additional 20% relief available on a discretionary basis decided on by the local authority.

33. The funding for the Rate Relief received by charity shops in Wales is estimated at £3.4m per annum. While acknowledging that charity shop rate relief is a relatively small sum in comparison to the Small Business Rate Relief total of £75m per annum, critics argue that it represents a sum that could be used elsewhere to improve the business environment for all retailers, and/or to support other social enterprise ventures that may locate in vacant properties in town centres.

- ***Landlord's Perception of Charity Shops***

34. The imposition of business rates on empty commercial properties has led some landlords to offer short-term lets to charity shops at minimal or zero rents in order to avoid prolonged periods of vacancy. Charities can offer a strong covenant to landlords with the associated assurance that the lease terms will be honoured, which gives charities some advantage in competition with start-up or small businesses for property leases. However, when the property market recovers expert opinion suggests that landlords are more likely to offer longer-term leases to conventional retailers. But a letting to a charity can sometimes enhance the investment value to a freeholder.

- ***Observations on Charity Shops***

35. A substantial amount of comment, opinion, and criticism have been made about the impact of charity shops on other retail businesses. Views have become more acute as the numbers of charity shops increased during the 1990s, and again over the last decade. The main criticisms focus on perceptions of unfair competition that charity shops represent to other retailers, and that the presence of charity shops can convey a poor image of a retail area, which may reflect on how other local retailers may be perceived. Charity shops have been managed more professionally over the last decade and charities claim that they invest in refurbishments and improvements to the properties that they occupy. However, the presence of charity shops continues to be used as an indicator of less attractive retail areas by both planning authorities and property agents.

36. As indicated above the issue of unfair competition is founded on the mandatory level of rate relief that charities obtain, coupled with the effect that this relief may have on rents. There are conflicting pieces of evidence on rents. On the one hand there appears to be opportunities for charities to offer to occupy an empty property, enabling the owner to avoid paying rates and thereby sometimes offering a rent reduction. But there is also evidence that in very desirable parts of the high street, charities can have an impact on maintaining rents at inflated levels, reflecting in part that the charity does not have a full rating liability. Incidentally, we understand that the Valuation Office Agency does not necessarily take this competitive advantage into account and discount rents paid by charity shops accordingly when compiling comparable evidence for the purpose of drawing up the Rating List.

37. Charities counter these arguments partly by pointing to the high shop vacancy levels in town and shopping centres as evidence that the effects of charity shops are minimal. However, in areas where there may be potential start-up or small retail businesses, the effects of mandatory rate relief in tandem with the organisational and reputational advantages of larger charity shops (particularly the majority that are part of a chain) is seen by many mainstream retailers to be a substantial market distortion.

- ***Charity Retail Association***

38. At the consultative workshop held in February in Cardiff and in subsequent correspondence the Charity Retail Association has provided helpful and interesting suggestions on the points raised above. These ideas are summarised in Annex 4. We are particularly grateful for their suggestions on monitoring the sale of new goods in Charity Shops. We make a recommendation in this regard below (recommendation 10).

D. The Main Issues

39. A number of issues were raised during our consultation exercise, many of which re-iterate and expand on some of the criticisms and concerns referred to in the section above. The issues include the effects of the clustering of charity shops in particular areas within towns and cities; the effect of Empty Property Rates (EPR); and instances of tax avoidance related to both inappropriate use of charity status and the effects of EPR. Along with these issues a number of actions were highlighted that could be taken to support mainstream retail businesses and to encourage diversity and vitality on the high street.

- ***Clustering of Charity shops***

40. The merits and demerits of charity shops on the High Street has been the subject of much debate and opinion is divided. However the increase in the number of charity shops seen in some towns has raised the additional concern over “clustering”.

41. Retail charity organisations are of the opinion that the number of charity shops in a given area is self-regulating in that charities will only open a new shop if there is a justifiable business model. Notwithstanding, there are a number of examples where the number of charity shops in a relatively small area has caused concern. For example, in Llanelli town centre there are 10 charity shops in two adjacent streets, and similar concentrations have been reported in Cardigan, Welshpool, Aberdare, Bridgend, Penarth etc. (see Annex 1).

42. The group has discussed the merits of, and mechanisms for, limiting the numbers of charity shops in a given town or location. Discussion has centred on the application of zoning rules along with modifications to the Use Class system that is currently employed to differentiate and regulate business premises in town and city centres. A number of comments have been received that argue in favour of introducing a mechanism whereby individual Local Authorities could impose a limit on the number and density of charity shops within their area. The proposal suggest that such a modification entails considering charity shops as a different form of retail business, based on their not-for-profit fundraising function, and thus be placed under a new Use Class.

43. However, zoning rules and modifications to the Use Class system meets with objections based on long-standing principles in planning law. Under planning law, Use Classes relate to the use made of premises, not on their ownership or business aims. In planning terms the purpose of a charity shop is to sell goods to the public, and as such it seems unlikely that there may be a way to differentiate charity shops from other retail premises on this basis.

Recommendation 1 - Use Planning Class

It is not recommended that a new Use Planning Class be introduced at this stage, but further consideration should be given to enabling the aims of such a change to be realised.

44. A 'one size fits all' solution to cover all types of town and city centres would be impracticable on a number of grounds, not least because there is divided opinion on the issue of charity shops.

Recommendation 2 – Zoning

Any approach that is adopted to zone or limit the number of charity shops in a given area should be done at a devolved level of responsibility; this should be a matter for local authorities.

- ***The importance of BIDs***

45. The *Business Rates Wales Review: Incentivising Growth* report recommended that the BID model should be promoted more widely in order to facilitate the regeneration and economic upturn of towns and city centres in Wales. Consultation and investigative work with charities suggests there is room to build upon this approach and to involve charity shops whenever a BID is established.

46. BIDs provide both tangible and intangible impacts within a geographically defined area. They encourage a more coherent vision for the development of retail areas and allow a more united approach to drive towards identified common goals. BIDs provide a practical mechanism to allow more effective communication between stakeholder groups, and allow direct responses to be provided to the concerns of local businesses and to suggestions for action aimed at regenerating and improving the vitality of the high street. BIDs allow businesses needs, which are often specific to particular businesses and to the environment within which they operate, to be identified more effectively, and BIDs are designed to encourage businesses to participate in developing a vision for, and assist in the strategic development of, the town or city centre. BIDs operate with a financially sustainable model, where members pay a levy based on a percentage of their property's rateable value, and funds may be invested to improve the trading environment, enhancing profitability and supporting local businesses.

47. Particularly in light of their continued growth, charity shops have an important role in helping to achieve a sustainable retail balance and to engage with the business community and other stakeholder groups in order to achieve this aim. Charity shop engagement with BIDs varies across the UK. In Edinburgh and Swindon, for example, all charity shops contribute to the levy, however, in other locations charity shops have been granted exemptions in the same way that they are exempt from the Uniform Business Rate (UBR). Other retailers and businesses have expressed criticisms of such exemptions given that charity shops have been able to enjoy the benefits of trading in a commercial environment, which has in large part been fostered and nurtured by BID investment, without making what might be considered to be a full contribution.

48. A lack of communication between charity shops and other retailers leads to a lack of understanding about how charity shops may fit into the retail offer of a town centre, and about the strategic direction that they may take, as evidenced by a survey of BIDs members undertaken in Swansea. The survey, reported more fully in

Annex 2, re-iterates many of the criticisms made about charity shops that have been noted in other responses to consultations made by this review. (The CRA has offered to work with the Welsh Government and with individual BIDs to encourage participation by charities in BID schemes.)

Recommendation 3 – Business Improvement Districts

Charity shops and their representative associations should be encouraged to fully participate as members of local organisations such as BID schemes that aim to rejuvenate and develop high streets in our towns and city centres.

- ***A new incentive to occupy vacant property***

49. Due to the non-devolved nature of Business Rates, when the UK Government withdrew the relief granted to vacant premises in April 2008, the Welsh Government had little option but to follow suit.

50. In our original report, we highlighted the impact that this had had on the property market - contributing to an overall tone of reduced rental and capital values. This obliged property owners and developers to pay full business rates on vacant property, after an initial three month void period for office and retail property and six months for industrial property. Prior to that date vacant office and retail property was subject to only a 50% charge and vacant industrial property was rate-free indefinitely. In addition, the RV threshold under which premises were exempt was significantly reduced.

51. In Wales particularly, this contributed to a lack of new commercial accommodation coming forward giving rise to severe shortages of suitable new or modern property for business in many areas. We therefore made a number of recommendations aimed at encouraging the development of new and refurbishment of existing property that included:

- Introducing a longer period of exemption of two years for new speculative development. Consideration also to be given to a longer period of exemption for speculative development in EU top tier assisted areas (West Wales and the Valleys), of say, three years.
- Introducing a longer void period (where nil business rates are paid) for those investors/developers refurbishing second-hand stock.

52. During the course of our original review, major concerns were beginning to emerge with regard to the decline of Welsh high streets and we made further recommendations that Welsh Government and European funding should be targeted towards supporting Business Improvement Districts (BIDs) and other town centre regeneration opportunities. The economic and social impacts arising from the growing vacancy rates for high street shops and other commercial premises has now become a priority for governments throughout the UK. We are therefore recommending a further measure linked to empty property rates to assist occupation of vacant shops and offices in designated high streets.

Recommendation 4 - Bringing long-term empty property back into use

Any business which takes up new occupation of a property which has been vacant for 12 months or more would enjoy rate relief of 50% for the FIRST year of occupation.

Recommendation 5 - Bringing long-term empty property back into use

A business occupying a RETAIL property in a town centre that has been vacant for 12 months or more would enjoy 50% rate relief for TWO years. In addition, social enterprises may apply to have this 50% rate relief extended beyond two years at the discretion of the local authority.

53. In putting forward this proposal, we have looked at recent schemes that have been put in place in Scotland (the Fresh Start scheme) and in Northern Ireland (the Empty Premises Relief scheme). In both these schemes, 50% rate relief is offered for the first year of occupation, whereas we are recommending in certain areas that a two year period is offered in Wales for empty RETAIL properties in town centres. We feel that a two year period may be needed to offer sufficient time for a start-up organisation to implement a business plan that could achieve a sustainable and profitable future for the enterprise after the relief comes to an end.

54. However, in addition, if the organisation occupying a vacant property is a **social enterprise** operating on a 'not-for-profit' basis, such as small creative groups and credit unions, then it may be possible for that organisation to obtain an extension to the period of relief beyond two years. For example, according to the Local Government Finance Act of 1988 Section 47 (2)(b) a shop which is established or conducted in a way that is 'not for profit' and whose main objects are 'charitable or philanthropic or religious or concerned with education, social welfare, science, literature or the fine arts;' is eligible to be granted discretionary relief by the LA. (At present the LA has to bear only 10% of this relief.)

- ***Tax Avoidance***

55. There is currently an anomalous provision in the rules governing rate relief whereby relief will apply to a vacant property where it appears that it will next be occupied by a charity. This provision has led to certain examples of irregular practice that may be considered in some cases as simply a tax avoidance strategy.

56. The provision to allow rate relief to vacant premises where there is a claim that it will next be occupied by a charitable organisation is difficult to justify. Apart from those situations where a registered charity is demonstrably refurbishing or stocking premises ready for imminent occupation it can be difficult for LAs to properly verify future intentions. Ambiguous cases allow a relatively easy loophole for EPR avoidance.

57. LAs have cited specific examples where large retail outlets and warehouses that have been lying vacant have been occupied by often “unfamiliar” charitable organisations and as a result, have avoided the empty property rate that would otherwise be levied. In some instances there have been serious doubts as to whether the occupation has been genuine.

58. Mandatory 80% charitable relief applies where premises are, in the terms of the relevant legislation, “wholly or mainly” occupied by a charitable organisation and for charitable purposes (Community Amateur Sports Clubs or CASCs, are also entitled to this category of relief). We are aware that some LAs have taken action to withdraw the relief, for example where it has been possible to establish that very little of the premises has been actually occupied and the “wholly or mainly” requirement has therefore not been fulfilled. In other cases, despite concerns, the LA has had insufficient grounds to cancel the relief. (The CRA has offered to work with the Welsh Government to explore ways of ensuring that charities are not inappropriately occupying premises.)

59. The potential for imposing an upper RV limit to prevent such opportunity for abuse has been considered by the group, but it is not a straightforward issue. There are many instances where premises with very high RVs are occupied by organisations with genuine charitable status. To avoid such organisations being adversely affected it would seem that any upper RV limit for charitable relief would have to be targeted at specific categories of property such as retail and/or storage.

60. As regards the issue of tax avoidance we had thought of recommending that an upper RV level of £36K should be applied to large commercial buildings outside town centres - particularly those that are used for storage and are currently being occupied by 'unfamiliar' charitable organisations in order to avoid empty property rates. However, we decided that this issue was outside of our remit and we simply take this opportunity to flag up a potential solution to the problem.

Recommendation 6 – Tax Avoidance

The government should consider the following measure to tackle tax avoidance: all commercial premises that are occupied and used for charitable purposes could be subject to an upper RV limit of, say, £36K.

61. The group has also noted a number of instances where larger retail premises are being quite genuinely occupied as charity shops by charities that are household names. Whilst there is no suggestion of any improper behaviour, it has nevertheless raised the question of whether the current situation of unlimited relief is appropriate or whether there should be an upper limit on the RV for which the rate relief may be granted. We concluded that an upper RV limit should be set and details are outlined below.

- ***Diversity on the High Street***

62. The decline of the high street in Wales is a multi-faceted problem that will need to be addressed by a number of changes – such as better planning policy and strategic regeneration measures. This report has not attempted to address all of these problems but has focussed on some of the main issues that currently create market distortions, poor perceptions, and a general belief that the high street is in decline.

63. Following its remit, the review group has investigated the extent to which the charity shop has changed over the last twenty years. Charity shops, and charity shop chains, have increased their professionalism as retailers and continue to maximise their income. This laudable progress has transformed the sector to the extent that it now more closely resembles the mainstream retail sector than it has in the past. Increased professionalism coupled with, and contributing to, change in consumer attitudes toward the charity shop, has made the charity retail sector a success story within UK retailing.

64. The relative success of the charity shop sector has, in turn, renewed questions about the continuing need for subsidies. This is particularly so for large charity shops; for charity shops able to lease retail property in prominent positions; for charity shops that are part of large chains; and for charity shops that sell new goods. Business rate relief is the most prominent subsidy for these shops, and critics point to it as a distorting market influence. The question thus arises whether businesses of the size and sophistication of some of the larger charity shop chains should continue to receive help in the form of rate relief at levels not available to other retailers.

65. Reduced rate relief for charity shops occupying premises with higher Rateable Value will reduce the criticism that charity shops do not make the same contribution to support retail centres that shops paying full rates make. New thresholds for charity shop rate relief will help reduce current (and possible future) distortions to which the current mandatory 80% relief for all charity shop properties, irrespective of size, gives rise. Reduced rates relief for charities will also go some way towards funding the extension of reliefs outlined in paragraph 52 above.

66. In our investigation we discussed at length the pros and cons of introducing an upper RV limit on the business rate relief for Charity Shops. Various different models were considered as set out in Annex 5. In the end we decided that an upper limit should be introduced because it would help address some of the issues raised above - particularly the point about whether larger commercial businesses in prime town centre sites, should continue to receive mandatory rate relief of 80%.

Recommendation 7 – Diversity on the High Street

New thresholds for charity shop rate relief should be created that will limit the amount of relief available for charity shops occupying premises of higher Rateable Value. These changes should be phased in for existing charity shops.

67. Full details of the proposed thresholds are set out in the next section which summarises our conclusions. However, it is worth emphasising that many of our recommendations – particularly those linked to tax avoidance and zoning - will require detailed discussions between the Welsh government and the UK Government before they can be implemented.

E. Conclusions

68. During this Review we have analysed the evidence on the impact that the mandatory 80% relief on business rates for registered charities is having on the high street. In particular, we have looked at the issue of rate relief in terms of the extent to which it is distorting competition and reducing diversity. In our opinion the 80% mandatory relief for charity shops is creating problems for small independent retailers in some of our town centres. Having looked in detail at the evidence and, notwithstanding the important contribution that registered charities make to the wellbeing of our communities, we recommend therefore that changes are made to the mandatory relief scheme in order to create a more level playing field in our town centres.

69. Therefore, we are recommending a series of measures that will introduce a more targeted approach to the business rates relief scheme than is currently only available to registered charities. We are also recommending the introduction of new measures that we hope will encourage more diversified investment into empty properties in our town centres. We believe that, taken together, these measures will provide a consistent and coherent approach to improving diversity on our high streets. However, they will not solve all the problems faced by our town centres - that will require much more concerted action within the sphere of planning and regeneration - but the recommendations will address some important issues and hopefully help move the debate forward.

70. One of our principle aims has been to reduce market distortions on the high street. We feel that our recommendations will help reduce some of the distortions which are being created by the current mandatory 80% relief for all charity shops.

Recommendation 7 in more detail: We recommend that, as the economy picks up, consideration should be given to reducing the mandatory 80% rate relief as follows:

- The full, mandatory 80% rate relief will be available on properties with a rateable value (RV) up to £12K (the current upper limit for Small Business Rate Relief). All charity shops will receive 80% rate relief on the **first** £12,000 of the RV.
- Charity rate relief will then be reduced from 80% to 50% on the **next** £24K of rateable value, i.e. up to a maximum RV of £36K. All charity shops will receive 50% rate relief on the **next** £24,000 of the RV.
- For RVs in excess of £36K we recommend that the business rate relief falls to zero.

In summary, Recommendation 7 states that where the RV of the property exceeds £12k:

- 80% relief is granted for the first £12k of RV
- 50% relief is granted on the RV that exceeds £12k but does not exceed £36k
- Nil relief is granted on any RV exceeding £36k.

71. In this way the above reliefs will be 'tiered', i.e. they will be cumulative. Some examples are set out in Annex 5. Therefore, all charity shops will receive some relief from business rates but the amount of relief they receive will be reduced in stages.

72. We initially considered placing the upper RV limit at £24K. However, in our evidence gathering sessions we were convinced by a number of charities (eg Ty Hafan, Tenovus and others) that their local charity shops would be adversely affected by this RV limit. Consequently, we feel that the recommendations above will allow for continued business rate relief to support smaller, local charities but will restrict rate relief for charity shops in properties of higher rateable values on the high street.

73. Implementation of **Recommendation 7:**

- For **existing** charity shops with an RV over £12K but under £36K, mandatory relief (for the amount that exceeds £12K RV) be reduced from 80% to 50% over a three year period – from say April 1st 2014 – in equal percentage increments per annum.
- For **existing** charity shops, with RVs above the upper RV limit of £36K the new zero rate relief (for the amount that exceeds £36K RV) will also be brought in over a three year period – from say April 1st 2014 - – in equal percentage increments per annum.
- For **new** charity shops we recommend that these new rate reliefs, if accepted, should be introduced with immediate effect.

Recommendation 8 – Rateable Value Thresholds

The RV thresholds set out above should be reviewed at the time of the 2017 Rating List and subsequent Rating Lists. The threshold RVs may then rise or fall according to the tone of the List.

Recommendation 9 – Future Rating List

When the next Rating List for 2022 is introduced, consideration be given to reducing the mandatory 80% charitable relief to 50% for all charity shops and that as much as possible of charitable reliefs should be left to the discretion of the local authorities.

74. The recommendations above, particularly the reduction in rate relief to 50%, should be seen as bringing into line the existing mandatory relief (available only to Charity Shops) with the recommendations we are also making for the introduction of a **Fresh Start style scheme**. **Recommendations 4 and 5** above set out our conclusions: any organisation that plans to occupy an existing property which has been vacant for at least 12 months will be eligible for business rate relief. The new scheme will offer 50% rate relief for one year on all qualifying properties. In addition, for vacant RETAIL properties on the high street, we recommend rate relief of 50% for TWO years.

75. We take the view that the 50% rate relief on Vacant Premises is both generous and fair. However, it also needs to be affordable in the context of the budget constraints facing both the Welsh Government and the Local Authorities. Therefore, to fund the introduction of a new rate relief that is widely available and also to try and make these changes cost neutral we felt that some reduction in rate reliefs elsewhere was a necessary step. We believe that the restrictions set out above on Charity Shop rate relief will provide a useful contribution towards making the new relief for vacant premises more affordable.

Recommendation 10 – Monitoring of New Goods Sales

To further address the issue of unfair competition on the high street, the amount of new goods being sold by charity shops be more effectively monitored by charitable organisations themselves (e.g. the CRA) - particularly in the run up to the Christmas period.

76. These proposals, taken together, will ensure that the money that is currently earmarked solely for mandatory rate relief for charity shops will be made more widely available with the aim of attracting a wider range of businesses to the high street.

77. However, the recommendations on restricting rate relief to Charity shops and extending reliefs elsewhere will need to be supplemented by other measures if longer term improvements are to be achieved in our town centres. These would include better planning policy and strategic regeneration measures to level the playing field between in-town and out-of-town shopping centres. One such measure relates to BIDs and we set out our view in Recommendation 3 above.

78. The Business Rates Review Group recognises the Welsh Government's commitment to supporting the charitable sector and acknowledge the role played by retail operations in fund-raising for charities. Hence our recommendation that the charitable sector becomes fully involved in town centre regeneration schemes.

79. However, the total number of charity shops on the high streets of Wales is rising and there are issues of market distortion and retail competition to be considered, alongside the threat to the overall variety and vitality of commercial areas.

80. This further study has provided the Group with the opportunity to consult widely on this matter. We firstly considered whether to introduce restrictions on the total number of charity shops however, after discussions with Welsh Government's planning team, concluded that it was not practical at this stage to recommend such a measure.

81. We have recommended that charitable relief be curbed at the upper end of the rateable value range for charity shops. In recommending thresholds for this relief, we have taken on board representations made to us and set out a tiered and cumulative set of rate reliefs which should leave the vast majority of local charity shops unaffected.

82. However, we question whether a **mandatory** relief from business rates is sustainable going forward. For example, as local retention of business rates is introduced in Wales and as moves towards greater “localism” gather pace, we feel that all charitable reliefs should be left to the discretion of the local authorities. Reliefs should also be brought in line with the new incentive which offers a discount of 50% for organisations taking occupation of properties which have been vacant for over 12 months.

83. We believe that our recommendations will help reduce some of the market distortions on the High Street whilst the scheme that we propose should create incentives for new and emerging businesses to invest in some of our more disadvantaged property markets.

F. Further Questions for Consideration

We invite interested parties to respond to these specific recommendations. For example, in terms of implementing these recommendations:

- Are the new recommended rate reliefs relatively easy to administer?
- Are there problems with the specific level of the proposed bands for rate relief?
- Would other restrictions on rate relief or wider availability of reliefs be more appropriate in creating a level playing field on the high street?
- Are there other incentives we should consider introducing to bring more vibrancy and diversity to the high street?

ANNEXES

Annex I - The Charity Shop Sector

Charity shop numbers

There is no definitive data on the total number of charity shops in the UK: one estimate puts it at over 9,500 shops, with over 460 in Wales (Civil Society Media, 2012; CRA, 2012a; Parsons, 2002). A survey of eleven of the 22 Welsh Local Authorities (LAs) in January 2013 showed that a total of 455 charity shops were in receipt of mandatory Uniform Business Rates relief (see Table 1), suggesting that the CRA estimate of around 460 in the whole of Wales may be too low.

Table 1: Distribution of Charity shops across eleven Welsh Local Authorities

| Local Authority | Type of area | Pop. (2011) | No. | Charity Shop Clusters |
|------------------------|----------------------------------|--------------------|------------|--|
| Cardiff | City | 346,090 | 56 | Albany Road (12); Cowbridge Rd East (9); Merthyr Rd, Whitchurch (5); Central Square (3) |
| Carmarthenshire | Rural/middle range urban centres | 183,777 | 52 | Llanelli Town (Cowell St) (2); Llanelli Town (Stepney St) (8); Llandeilo Town (Rhosmaen St) (2); Carmarthen Town (King St) (3); Carmarthen Town (Nott Square) (3); Carmarthen Town (Red St) (2); Carmarthen Town (Blue St) (3) |
| Newport | City | 145,736 | 49 | City Centre (20) |
| RCT | Peri urban/mid range urban | 234,410 | 48 | Pontypridd (8); Aberdare (8) |
| Conwy | Rural /small towns | 115,228 | 41 | Not Available |
| Gwynedd | Rural/small towns | 121,874 | 39 | Caernarfon (4); Pwllheli (3); Porthmadog (4); Bangor (9) |
| Flintshire | Peri urban/mid range urban | 152,506 | 38 | Not Available |
| Caerphilly | Peri urban/mid range urban | 178,806 | 36 | Bargoed (3); Rhymney (3); Ystrad Mynach (4); Caerphilly (8); Blackwood (6); Risca (2) |
| Ceredigion | Rural / small towns | 75,922 | 34 | Lampeter (5); Cardigan (7); Aberystwyth (8) |
| Swansea | City | 239,023 | 32 | Not Available |
| Denbighshire | Rural/small towns | 93,734 | 30 | Not Available |
| Total | | | 455 | |

Source: Data compiled by authors from Local Authorities, December 2012, and ONS (2012); Note that the number of shops per cluster is included within parentheses

The eleven Welsh LAs sampled represent a range of areas including cities such as Cardiff, Swansea, and Newport; local authorities with a mix of mid-range towns and rural areas such as the Valleys communities of Rhondda Cynon Taff and Caerphilly, as well as Flintshire in north Wales; and predominantly rural areas in which a range of market towns are located such as Gwynedd, Denbighshire, Carmarthenshire,

Conwy, and Ceredigion. A clear pattern of distribution is not discernable across these areas. The LA with the highest population has the highest number of charity shops (Cardiff: with 56), but this correspondence does not hold for all areas: Newport, for example, has the third highest number of shops but ranks seventh in population ranking, while Swansea with the second highest population ranks tenth in the number of charity shops. City and urbanised areas (with higher population density) such as Rhondda Cynon Taff tend to have most shops, however, even this apparent correspondence is contradicted by Carmarthenshire, which is a predominantly rural area, albeit with a few medium sized urban centres, but has the second highest number of shops.

Charity shop numbers has varied, with periods of high growth and retrenchment (Alexander et al, 2008; Paddison, 2000). The Charity Finance survey (Civil Society Media, 2012) indicates that the current expansion is expected to continue. Expansion has been attributed to a number of factors including the varied effects of the general economic slow down (late 1990s and 2008), closure of high street retail chains, and the spread of out-of-town retail parks allowing town centre shop vacancies to rise (e.g. Civil Society Media, 2012; Parsons, 2002).

The Charity Retail Association (CRA) membership data shows that just 13 of its members (4%) run nearly 60% of all shops (see Table 2), whilst the CRA estimate that large charities (ie UK wide operating 100+ shops) operate around 47% of charity shops in Wales¹, in line with the situation in rest of the UK.

Table 2: Distribution of shops chains across charities

| No. of shops/charity | No. of Charities | No. of shops | % of total shops |
|-----------------------------|-------------------------|---------------------|-------------------------|
| Charities with >100 shops | 13 | 4101 | 59.7 |
| 21-100 shops | 24 | 983 | 14.2 |
| 11-20 shops | 61 | 877 | 12.8 |
| 5-10 shops | 91 | 659 | 9.6 |
| < 5 shops | 124 | 253 | 3.7 |
| 0 shops | 25 | 0 | 0 |
| Total | 338 | 6873 | 100 |

Source: CRA Annual Report 2012 (CRA, 2012b)

Charity shops locations and clustering

Decisions on locations for charity shops are taken on relatively general grounds (Livingstone, 2011; Alexander et al, 2008; Parsons (2002); Paddison, 2000), and clustering is, therefore, more likely since the decision on location is focussed on relatively easy to identify criteria. The clustering of charity shops is most noticeable where there are relatively large numbers, as shown in Table 1.

¹ Private communication with CRA.

It can be assumed, however, that a concentration of charity shops in smaller shopping centres and small towns will have a greater impact than they have in larger centres where their effect is diluted eg, 7 shops in Cardigan (population 4,000) c.f. 6 shops in Blackwood (population 16,000). However, there is little direct evidence of the impact and role of charity shops in this context. Generally retail in rural towns is influenced by distance and relationship to other towns: for example, larger shopping centres draw consumers away from small towns, whilst in other cases the services and retail offer of a number of towns may be complementary (see Pembrokeshire, 2010; Monmouthshire, 2010; WRO, 2007; Brown et al, 2003). Location decisions are affected by such general conditions, but also by the capacity of charity chains to supply outlying shops with goods redistributed from other regions.

The balance between charity shop functions, viz. fundraising; social provision of goods; recycling; advertising and promoting the charity's primary work; providing volunteering opportunities and work experience; acting as a focal point for community or social engagement functions have changed somewhat in more recent times (see for example Horne and Maddrell, 2002; Parsons, 2002; Livingstone, 2011). Where social service functions are prominent, charity shops tend to be located in areas that are accessible to those on low incomes. Shops with a focus on maximising income e.g. those offering specialist and niche goods, and new goods as part of their retail offer, are more likely to be located on arterial routes in towns, where there is optimum accessibility for customers as well as to donors and volunteer staff.

Charity shops' performance

Annual profits in the charity sector increased by 4-7% annually between 2008 and 2010, 12.2% in 2011, and 14.3% up to March 2012. In Wales, charity shop income for the financial year to March 2012 was of the order of £50m, which, yielding an estimated profit figure for Wales of just over £12m². The main operating costs applicable to charity shops are shown in Table 3.

Table 3: Overall expenditure (excludes charities unable to provide full breakdown)

| Item | £ | % of total |
|---|-------------|------------|
| All staff costs | 203,579,167 | 38.7 |
| Shop rental | 115,648,631 | 21.9 |
| Sourcing goods/ depreciation/ head office/ other property costs | 99,941,110 | 18.9 |
| Local authority uniform business rates | 8,389,151 | 1.6 |
| Cost: primary purpose goods | 10,100,911 | 1.9 |
| Cost: Christmas Cards | 4,140,819 | 0.8 |
| Cost: all other bought-in goods | 17,782,691 | 3.4 |
| Disposal of Waste /All other operating costs | 67,025,567 | 12.8 |

Source: Charity Shops Survey, 2012 (Civil Society Media, 2012)

² Combined with the average profit as a % of income of 24.4%: Private communication with CRA.

Charity shops report a rising trend in average profit per £ of rent, even though there is a wide range of annual rents paid across the UK from a high of £161,500 to £13 pa. Respondents to the CRA survey indicate that there is currently more property available at highly competitive rates, while 36% of respondents report that they have rent-free property corresponding to 15% of their properties on average. This is when rent levels, held at peak market levels, have become a significant target for mainstream retailers (FT, 2011).

Competition and criticisms of charity shops

For respondents to the Charity Shops Survey 2009 discount commercial retailers are identified as the biggest competition, but by 2011 these had been supplanted by other charities as the most significant competitor (Civil Society Media, 2012). In addition to the competition for sales, competitors affect the supply of goods as potential donation stock is diverted to other outlets; the availability of volunteers; and for paid staff mainstream where retail outlets may be able to offer better salaries.

Other retailers criticise charity shops for selling new or bought in goods. Although much of this type of merchandise has direct connection with the mission of the parent, respondents to consultation exercises for this review provide anecdotal evidence of periods during the year where charity shops may sell more of new goods than is the norm, or sell end-of-line and job-lot bankrupt stock when the opportunity arises.

Small mainstream retailers also point out (see e.g. Annex 2) that most charity shops are now part of chains, which are able to spread costs across a number of shops, and employ greater management and other resources to support individual shops. With lower overhead costs, not least by virtue of their rate relief, charity shops are also in an advantageous cash flow position, enabling them to survive poor retail periods more easily than their mainstream competitors. Charity shops are, therefore, criticised for unfair competition, and the rate relief that they enjoy represents a market distortion.

More generally, some planning authorities use the presence of charity shops to act as an indicator of the attractiveness of an area to new businesses (Cardiff County Council, 2012, p52). However, in much of the comment about the effect of charity shops (eg, CREW, 2012; London Assembly, 2012; Portas Review, 2011; NEF, 2010; Hulme, 2009; The Social Market Foundation, 2006; Forum of Private Business, 2006), the presence of charity shops per se is not the issue. Rather commentators focus on the number, perceived preponderance and the threat to diversity represented by charity shops. The presence of charity shops is, thus, used as shorthand to illustrate the decline of the high street, and the health of a local retail economy, albeit alongside other types of outlets such as pawn brokers, discount stores, payday loan companies and betting shops.

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Annex 2 - Swansea BIDS Charity Shops Survey; February 2013

The survey consists of nine questions about attitudes among members of the Swansea BIDS regarding charity shops. Seven questions elicit Yes/No answers while a further two are free response questions.

Summary of results from Qu 1-6 and Qu 8:

- Nearly two thirds (62%) of respondents feel that it is not appropriate that charity shops pay (only) 20% of their rates bill.
- The overwhelming majority (85%) did not agree that charities should be exempt from rates.
- The overwhelming majority (97%) did not agree with charities taking over large retail units in prime locations
- More than two thirds of the responses (68%) did not agree that charity shops located on the high street add to the retail offer
- The overwhelming majority (93%) agreed that there should be a limit to the number of charity shops located in a particular street or area.
- Nearly two thirds (64%) of the respondents stated that they believed that charity shops represent unfair competition to independent shops.
- The overwhelming majority of the respondents (97%) felt that charity shops should participate in BIDs.

Written comments to the two free-response questions may be grouped into a number of areas as shown in the following:

Question 7 asked if respondents believed that charity shops provide unfair competition to other independent shops, in what ways did they think competition between charity shops and other independent shops could be made fairer.

- A number of comments stated that there should be a **level playing field for all retailers**. A level playing field would entail the same kind of rates for everyone (dependent on RV) and no preferential rent agreements. The lower overall overhead costs were quoted to show that charity shops had an unfair advantage, including low staff costs as well as lower rates and rents.
- Respondents particularly noted that charity shops should **not be allowed to sell any new merchandise** if they were to benefit from reduced rates. If charity shops were or could sell the same goods as other retailers they were able to undercut prices, which was an unfair practice.
- More generally it was argued that charity shops should not have any **special treatment**. *'If charities choose business as a means of fundraising, then they should be subject to the same conditions as all other businesses'* (survey respondent).

- Respondents also felt that charity shops should not occupy **prime retail premises** and some form of **zoning** should be adopted to control the numbers of such shops in any particular area. One concrete suggestion was to offer charity shops space in out of town shopping centres where there was little or no rates/where rates per footage already appear to be low.

Questions 9 asked for the main reason that the numbers of charity shops have increased at a time when many independent and large retailers have ceased trading.

The main point noted was the low running costs of charity shops, again quoting low rates, rents, wages and stock costs. The power of the chains of charity shops to reduce overhead costs was also evoked to explain why costs could be lower.

Having to pay full empty property rates provided the landlord an incentive to lease property to charity shops particularly if the space was too large for commercial retailers. Leasing to charity shops thus made sense to landlord even on a temporary basis, given the threat of the costs of vacant property

The general economic situation was quoted as a major reason for the downturn on the high street, with the consumer being more careful of their spending and looking for cheaper goods. The high street has thus become very competitive and mainstream retailers have to squeeze their margins to the extent that they go out of business. Charity shops do not have the same costs and therefore can manage on small or virtually no margins. *'Paying lower or zero rates frees up cash flow, therefore enabling a (charity) shop to ride out quiet months'* (survey respondent).

Town centre management was considered to be a negative influence on the survivability of retailers. Rates were considered too high, as were business charges in general. In Swansea specific problems such as road layout, the traffic system, signage design, and access to the shopping area were considered as obstacles to bringing more custom into the town centre.

Town centre management had not halted the deterioration of the offer in the centre: *'...the alarming domination of the city centre by charity, pawn, and discount shops, coupled with the many empty premises. We now struggle from day to day to survive whilst feeling embarrassed rather than proud to be part of the city'* (Survey respondent)

Annex 3 - Schemes in Northern Ireland and Scotland

- ***Empty Premises Relief in Northern Ireland***

In Northern Ireland, the 'Empty Premises Relief' scheme was started on 1 April 2012. In November 2012, the Finance Minister confirmed that this would continue until 31 March 2015. He also confirmed that 52 businesses had benefitted from this scheme between April and November 2012.

The scheme applies to retail premises that have been empty for 12 months or more and was introduced following concerns about empty shops in town centres. The property eligible for the relief does not need to be used for retail purposes.

Eligibility is for the business ratepayer who occupies premises that have been previously unoccupied for 12 months or more. The criteria sets out that where the property is rented, and the landlord is liable to pay the rates, the landlord must pass the benefit onto the tenants.

Ratepayers will be entitled up to 50% relief. The key restriction on this is that this must be compliant with EU state aid limits which is currently 200,000 euro over a three year period. Additionally, no other occupied reliefs or exemptions would be available if this relief is awarded.

Application forms are submitted to Land and Property Services. More information about the Scheme can be found here:

<http://www.nibusinessinfo.co.uk/content/empty-premises-relief>

- ***Fresh Start Scheme in Scotland***

The Scottish Government has announced the introduction of a similar scheme to that introduced in Northern Ireland. It is intended that the scheme will support diversification of town centre and that some empty new build properties will also qualify.

New occupants of shops or offices that have been empty for at least a year will be able to apply for a fifty per cent discount on their business rates for 12 months.

The aim of the "Fresh Start" scheme is to rejuvenate high streets by helping owners and landlords fill empty properties as well as encouraging business start-ups by reducing business rates bills.

The scheme in Scotland will begin on 1 April 2013 and those interested in starting a business in an empty shop or office have been advised to contact their council to discuss. The Scottish Government has estimated that this scheme may cost around £2m annually.

More information about the scheme can be found here:

<http://www.scotland.gov.uk/News/Releases/2013/01/businessrates21012013>

Annex 4 - Summary of the Business Rates Consultative Workshop

Attended by Charities, Social Enterprises and Credit Unions

Background

To complement and enhance the stakeholder engagement undertaken through the Call for Evidence, a consultative workshop was held on 25 February 2013 at Cardiff Metropolitan University.

In undertaking the arrangements for the workshop a key consideration was the need to secure genuine balance so that charities, business and other stakeholders could discuss these important issues in a forum conducive to free, open and frank exchange of views.

Attendance therefore needed to be broad enough to be representative, but also limited in number so as not to be so large that it impeded the ability to participate in a meaningful discourse.

The workshop was attended by nineteen representatives encompassing the charitable sector, social enterprise, credit unions, small business, local government, academia and business rates practitioners. This was supplemented by the membership of the Business Rates Task and Finish Group and two Welsh Government officials to assist in the facilitation and noting of discussion points from the list below.

Format

Each attendee was allocated into one of four broadly balanced groups to help stimulate discussion across the full range of issues. The perspectives of charity and other retailers was set out and discussed. In addition as well as considering the recommendations in the round, each Group was asked to focus on a specific recommendation.

- a. Limiting rate relief to 50% for larger charity shops trading in new goods.
- b. Placing an upper RV limit on the definition of retail premises eligible for charitable relief.
- c. Introducing tighter qualifying criteria e.g. must be philanthropic, providing social or community benefit AND/OR must be actively using all the premises.
- d. Limiting the number of retail units eligible for charitable relief in a given town centre OR limit relief to only one per charity in a given area.

Key discussion points

A very diverse range of viewpoints were explained and discussed. The following is a summary of the main points that arose.

- The role and contribution of charity retail to social, environmental and economic life in Wales; the scale of the charity retail sector and its annual growth.
- The proportion of new goods in comparison with donated goods sold by charity shops and the extent to which charity shops may be in direct competition with other retailers.
- The extent to which the charity retail sector benefits from lower overheads, lower fixed costs and lower inputs than the commercial sector and whether in the current economic climate there is a need to create a more level playing field on the high street.
- The potential need for further research and data on the impact that the presence of charity shops has upon rents and any other market distortions.
- The advantages and disadvantages of the principle of setting an upper RV limit and whether a sliding scale of relief should be introduced similar to the small business rate relief approach.
- The extent to which limits on relief might be decided locally to allow for greater flexibility and local discretion.
- The relative size of the Charity Retail Relief 'fund' in comparison with the Small Business Rate Relief 'fund'.

Key points of agreement

There was a general consensus on the following points:-

- The importance of ensuring that charity retail plays its full part in the BID agenda.
- Exploring the potential to introduce a new A6 use class for Registered Charities.
- Joint-working with the Charity Commission and others to ensure more robust enforcement of existing rules and conditions governing relief to charities.
- Monitoring and keeping under review the proportion of new goods sold by charity shops.

Annex 5 - Three models for Charity Shop Rate Relief thresholds

A comparative illustration of how three different models of rate relief for charity shops that have been considered by the Review Group is presented below. The models show the effect on the rates bill payable for a charity shop occupying a property with Rateable Value of £36,000. The effect of discretionary relief is not considered.

Model 1 (No RV Limit)

With the current position of mandatory 80% relief on all charity shop premises a shop occupying premises of £36,000 RV would pay the equivalent to full rates on a property of $RV\ 36,000 \times 0.2 = \mathbf{£7,200}$

Model 2 (RV maximum set at £36K)

This model proposes that all charity shops receive 80% rate relief on the first £12,000 of the RV, which is the equivalent of full rates on $12,000 \times 0.2 = \mathbf{£2,400}$

Rate relief at 50% is then granted for the remainder of the RV, which for a property of RV £36,000 would amount to $(36,000 - 12,000) \times 0.5 = \mathbf{£12,000}$. Hence, in total the charity shop in this instance would pay the equivalent of full rates on a property of $RV\ \mathbf{£2,400 + £12,000 = £14,400}$

Model 3 (RV maximum set at £24K)

The third model proposes that the first threshold for 80% relief remains at £12,000, hence equivalent to full rates on property of £2,400. The next £12,000 RV would be granted rate relief of 50%, i.e. $12,000 \times 0.5 = \mathbf{£6,000}$

Above a £24,000 RV limit the rate relief reduces to 0%. For a property with a £36,000 RV this portion would be rated at full rate value ie, £12,000. Hence for a property of £36,000 RV the total under this model would be:

$$2,400 + 6,000 + 12,000 = \mathbf{£20,400}$$

Summary

| Model | Rate Relief Thresholds | For £36,000 RV exemplar: Equivalent full rate RV |
|--------------|--|---|
| 1 | 80% rate relief No upper RV limit | £7,200 |
| 2 | 80% rate relief to £12,000 RV 50% rate relief on portion of RV above £12,000 No upper RV limit | £14,400 |
| 3 | 80% rate relief to £12,000 RV 50% rate relief on portion of RV between £12,000 to maximum of £24,000 0% relief on portion of RV above £24,000 | £20,400 |