

Rt Hon Rishi Sunak MP
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

17 April 2020

Dear Chancellor,

We are writing on behalf of the retail industry and the landlords whose premises they occupy. Collectively, our sectors employ over 3m people and constitute 5% of the UK economy. Our members are geographically dispersed and represented in every high street and town centre in the UK.

That is why we welcomed the Government's decisive and positive responses to the rapidly unfolding health crisis. Crucial decisions to increase the retail, hospitality and leisure rates relief to 100%, introducing the Covid Corporate Financing Facility and Coronavirus Business Interruption Loan Scheme, and the welcome moves to support staff through the Coronavirus Job Retention Scheme, were powerful measures to support businesses and people who, through no fault of their own, were facing economic calamity. We are committed to working with you to make sure that these schemes achieve their stated objectives.

The scale of the crisis facing the retail sector is grave. While sales may have increased in certain sub-sectors, such as food retailing and household items, these are temporary in nature, and the majority of business are experiencing dramatic falls in turnover of up to 100%. The same is true for businesses in many other sectors.

Many of these businesses operate on small profit margins – the retail sector's average profit margin had fallen from 4% in 2013 to 2.5% prior to the start of the crisis. Most operators do not have significant cash reserves to fall back upon given the scale of fixed costs that they continue to have to meet. For them, survival is now being measured in weeks rather than years. Unless further action is taken, we will see many otherwise viable companies file for administration, with the consequent loss of jobs, devastating impact on communities and high streets, and increased cost burden on public funds, not to mention threats to the income generation for pension funds, amongst others.

There is a real risk that businesses that were fundamentally sound prior to the start of the Coronavirus outbreak will not be able to survive even a short period without urgent, more fundamental support, with important consequential effects for their landlords and their landlords' lenders. Supporting staff who have been furloughed will be of limited benefit if at the end of the lockdown period the businesses for which they work have ceased to trade. Even when restrictions are lifted, the economic recovery and the pathway back to full operation for many of these businesses is unlikely to be strong or quick enough to enable rapid payback of accrued rent arrears and other debts, which could of course include business interruption loans for those businesses that are able to, and choose to, access them.

After payroll, the most significant cost for businesses is often the cost of property occupation: rents, business rates and service charges. You have removed one of these, business rates, for the current financial year. Relief from rates is very welcome for those businesses that can benefit, but it leaves, broadly, two thirds of the property costs still payable. Businesses and their landlords have been working hard to find solutions, such as rent deferrals and rent-free periods, that try to balance the needs of both parties, but the truth is that with little or no turnover from trading, ongoing payment of property costs will imminently become impossible.

While we welcome the financial support offered by business interruption loans, for many firms they remain an unviable option to access funding due to lenders' reluctance to lend to the retail industry. Furthermore, for many firms, even full use of these loans will only support their businesses for a matter of weeks or months.

That is why we have come together, as voices of both commercial tenants and landlords, to propose that the Government introduces a scheme of rental support for the space that has in effect been furloughed, just as staff have been; focussing support on occupiers will then bring the relief to landlords (and their lenders) upon whose success they depend.

The Furloughed Space Grant Scheme (FSGS) would mirror similar schemes being introduced in Denmark and other European countries, whereby the state supports the fixed costs of businesses that have experienced dramatic falls in turnover due to the Coronavirus outbreak, thereby protecting the buoyancy of the sector and the many layers of stakeholders involved

We believe that a successful scheme should have at its heart a number of key principles:

- It should complement the existing measures which the Government has already introduced to support businesses;
- It should recognise that a complex ecosystem connects the commercial buildings that make up our towns and cities, through their owners, to the banking system and the pensions and investments of the public, and should support the integrity of that ecosystem
- It should incentivise landlords, their lenders and tenants to work together and each should be prepared to bear some of the impact of coronavirus;
- It should be time-limited (but recognise that businesses will take some time to recover);
- It should be targeted to those in genuine distress as a result of Coronavirus, recognising that business interruption loans will not be an appropriate solution for everyone, and may not be sufficient even if taken up; and
- It should be able to distribute money quickly, particularly to those businesses who have very little financial resilience and mounting liabilities.

Building on the Danish model, the FSGS could work as follows, though there are variations that could be built in:

- Eligible businesses would submit to the Government a self-certified or an independently audited forecast of the actual and expected drop in turnover for the period of lockdown (i.e. from 24 March to 30 June, or whenever restrictions are lifted).
- This submission would include the details of the fixed property costs placed on the business during this period, namely rents and service charges.
- Government would commit to meeting these costs on a sliding scale basis – so 25% of the costs would be paid by Government for a drop in turnover between 40-60%, 50% if the drop in turnover is 60-80%, rising to 80% for a drop in turnover between 80-99%, and 100% where a business is not trading at all.

- Any overpayment (i.e. where turnover falls by less than forecast) would be clawed back by Government after the end of the period.
- It would be for businesses and their property owners to agree between them how any shortfall between the government's contribution and the property costs payable is dealt with, which lenders should facilitate. The arrangements would not automatically supersede existing arrangements between landlords and tenants.

The FSGS would apply to businesses in the retail, leisure and hospitality industries as these are the sectors most directly affected by the restrictions on movement. However, we would urge consideration of extending it to other parts of the economy where evidence of similar stresses is now emerging, such as serviced offices and student accommodation, that support our start-up culture and productivity and exports of higher education respectively, rendered vulnerable by economic lockdown.

We hope that we can discuss this proposal with you, your Ministerial colleagues, and officials, in the coming days.

Time is of the essence. Without rapid action on rents, we risk creating unnecessary unemployment and economic harm that will ripple across the economy for years to come.

This letter is being sent to the Secretary of State for Housing, Communities and Local Government and the Secretary of State for Business, Energy and Industrial Strategy for their information, too.

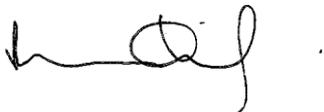
Yours sincerely,



Helen Dickinson, Chief Executive, British Retail Consortium



Melanie Leech, Chief Executive, British Property Federation



Vivienne King, Chief Executive, Revo

Cc:

Secretary of State for Housing, Communities and Local Government

Secretary of State for Business, Energy and Industrial Strategy