SCOTTISH GOVERNMENT BUDGET 2019-20: SRC POST-BUDGET RESPONSE

ABOUT SRC

1. The SRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future.

2. Retail is an exciting, dynamic and diverse industry which is going through a period of profound change. Technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.

3. The SRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership here in Scotland and across the UK comprises businesses delivering £180bn of retail sales and employing over one and half million employees.

4. In addition to publishing leading indicators on Scottish retail sales, footfall and shop vacancies, our policy positions are informed by our membership and determined by the SRC's Board.

REFLECTIONS ON THE SCOTTISH BUDGET

5. The economic backdrop for retailers is challenging, which means the industry has a heightened interest in fiscal and regulatory measures which either increase or lower costs. That said, the spending side of the Scottish Budget does contain a number of positive measures on digital skills, city and regional growth deals, housing and transport infrastructure.

6. Our MSPs will rightly and robustly debate and scrutinise the detail of the Scottish Budget's tax and spending plans for the coming year. However, especially in the current economic and political climate, businesses are keen for some semblance of stability and certainty and we therefore expect a collegiate approach will ensure that the Budget can be passed in a timely fashion.

Projections for economic growth

7. The relatively anaemic economic growth and household earnings projections from the Scottish Fiscal Commission[1], are sobering, more so as Scotland's economy has

[1] SFC's Scotland's Economic & Fiscal Forecasts – December 2018

underperformed the UK as a whole over recent years. Continued growth of barely a smidgen over 1 per cent over the next five years presents a challenge for retailers let alone government revenues. If we are to see a step change in our economic fortunes then lifting private sector investment and supporting consumers becomes even more critical.

Non-domestic rates

8. It is clear from the Budget and from the proposed Non-Domestic Rates Bill, which will deliver more regular commercial property revaluations, that headway is being made on business rates. That said, the burden of business rates remains onerous. This is felt especially by retailers who account for 22% of all rates paid. Since the turn of the decade in 2010-11 the headline poundage tax rate has risen from 40.7% to 48% in 2018-19[2]. For the 22,024 commercial premises[3] (of which 5,128 are retail premises) subject to the large business rates supplement, the comparable figures are 41.4% and 50.6%.

9. We therefore welcome the action taken in the Budget to bear down on the headline poundage rate over the coming year. Whilst we would have liked Ministers to have gone further[4], the below-inflation rise is a clear acknowledgement of our arguments and concerns. This decision to strike a headline rate a touch below that which applies in England will, we estimate, shave £2 million off the rates bills of retailers in the coming year than would otherwise be the case. That said, their rates bills will still rise in April by 2.1% (circa £15 million) at a time when Scottish retail sales by contrast have risen by merely 0.5% over the past 12 months[5]. The early announcement of a CPI-linked uplift for 2020-21 gives firms' predictability for budgeting purposes.

10. Unfortunately the large business rates supplement remains twice that which applies in England, a blot on the government's record. We are on the cusp of entering the fourth consecutive year of experiencing this discrepancy, which costs businesses in Scotland a total of £65 million extra each year, of which retailers alone account for £14.1 million. This higher rate simply makes it more expensive to operate on our high streets and retail destinations and raises the hurdle for attracting commercial investment. Eradicating this discrepancy would mark a positive step towards delivering on promises of a globally competitive business environment, and we hope this Scotland-only surcharge can be eliminated in line with the recommended timeline of the Barclay Rates Review, namely for 2020-21.

11. We are very pleased that the Finance Secretary and Public Finance Minister listened to the chorus of business concern led by the SRC[6] and the retail industry surrounding the proposals for a costly and complex new rates levy on firms which operate out of town and online. Confirmation in the Budget of the decision to scrap this proposal is really positive, and means business is better placed to get behind the proposed Non-Domestic Rates Bill.

12. The Budget states that rates reliefs in 2019-20 will be worth £750 million. The cash value of business rates reliefs in Scotland has leapt by 93% over the past eleven years, up from £389

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[2] Ministerial response to Alexander Stewart MSP's written PQ – S5W: 17861
[3] Ministerial reply to Dean Lockhart MSP's written PQ – S5W: 13738
[4] 'Shaping retail reinvention: retail industry recommendations for the Scottish Government's 2019-20 Budget', published by SRC in August 2018
[5] SRC-KPMG Scottish Retail Sales Monitor for November 2018
[6] 'Commerce unites to urge scrapping of new rates levy on out of town businesses', joint letter from 21 organisations, 29 November 2018

million in 2008-09[7]. As a proportion of the overall tax take from business rates, reliefs over the period have risen from 20% to 27% now. The rates system only seems to function through an increasing myriad of exemptions and reliefs that continue to grow as a proportion of the total overall amount paid. This highlights the need for reforms which make the tax more modern and competitive.

13. The Budget document mentions[8] that councils have the power to cut business rates in their areas, however we are not aware of any of the 32 councils doing so in the current year. Indeed only three have done so, and for a time-limited period, since councils gained this power over three years ago. Ministers should redouble their efforts to get more local authorities to capitalise on this opportunity to support high streets and town centres.

Town centres fund

14. The new one-year funding stream to boost high streets and town centres should assist their re-invention into modern and diverse retail destinations. Our town centres have a great deal to offer but many need a more compelling reason for people to visit, spend time and money. The shop vacancy rate in town centres has risen to 11%, the second highest level in seven years[9]. Retail store numbers overall are down 4% over three years, steeper than elsewhere in the UK[10]. This new fund sounds like a promising move to enhance the economic viability of our town centres. Further action to spur private sector investment is certainly required, and where Business Improvement Districts or others have good ideas they should be eligible to access the cash. Early ideas for consideration might include: better and more affordable parking and improved digital and transport infrastructure, to make it more attractive for shoppers and visitors and to generate footfall; and speeding up the consenting of building warrants for new or refurbished shop premises. A more coherent approach is also needed, one which makes it less costly for firms to operate in town centres. Councils should be allowed to use this fund to cut business rates in their area, and Scottish Ministers should reduce the large business rates supplement which captures many town centre properties in its net.

Income tax

15. As indicated earlier, retail sales growth has been tepid and with household incomes set to be tested with further increases in the cost of living, the Budget decision to protect those on modest or low earnings – coming after the increase in the personal allowance[11] - is the right decision.

16. Household finances face increases to the legal minimum we must put into our pensions[12] in April, over and above the increase which came into effect in Spring 2018. Over and above this the Budget document forecasts a cumulative council tax rise of up to £80 million, and of course the proposed upfront deposit charge on drinks bottles and containers is still to come into effect.

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[7] Ministerial reply to James Kelly MSP's written PQ: S5W: 16895

[8] P33

[9] SRC-Springboard Footfall & Vacancy Monitor, published 12 November 2018

[10] SRC analysis of ONS data published on 3 October 2018

[11] In the UK Chancellor's 2018 Budget

[12] A further uplift in employee contributions, of 2%, will occur in April. The SFC report acknowledges that increases in non-wage costs (e.g. recent rises in employers' pension contributions and the apprenticeship levy) together with limited profitability are acting as a drag on wage growth

17. All of this means that shoppers are likely to carefully consider what purchases they can afford in the year ahead.

18. The Budget document commits[13] to ending the present council tax system. We are open to council tax being reformed or replaced, however such changes should take into account the impact on consumer spending. Reforms to council tax which increase the tax burden on those on modest or average earnings is likely to negatively impact on consumer spending. The re-basing of the tax only took effect two years ago and added circa £150 million to household bills.

Flexible workforce development fund

19. Retailers have a strong record on training and skills, with many providing a range of apprenticeships in areas such as logistics, warehousing and food preparation alongside made other accredited or job-related qualifications. The government has taken on board several of our recommendations in respect of the flexible workforce development fund, however further improvements are required, such as lifting further the £15,000 cap per firm which is too low and too restrictive for payers of the Apprenticeship Levy. This is increasingly acute at a time when retailers are devoting more of their budgets towards training staff to implement public policy, e.g. the recent new regulations around minimum unit pricing of alcohol.

Scottish Retail Consortium
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[13] P76