CERTAINTY, COMPETITIVENESS, CONFIDENCE

RETAIL INDUSTRY RECOMMENDATIONS FOR THE 2020-21 SCOTTISH BUDGET

SRC

A SNAPSHOT

22% OF BUSINESS RATES PAID BY RETAIL

BUSINESS RATE POUNDAGE AT 20-YEAR HIGH

BUSINESS RATE HAS LEAPT FROM 41% TO 49% THIS DECADE

£13.2M ADDED TO RETAILERS' RATES BILLS IN APRIL

5,065 RETAIL PREMISES PAYING LARGE FIRMS SUPPLEMENT

8.6% FALL IN RETAIL JOBS ON HIGH STREETS

9.8% SHOP VACANCY RATE

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FOREWORD

AUTUMN 2019

Dear Finance Secretary,

There has rarely been a better time to be a consumer. The flipside is that these are unsettling times for many retailers, with conditions the toughest in a decade, due to a combination of profound structural, economic and regulatory changes muting growth in sales and halving profits. Indeed, the only fixed point in a world of flux for retail seems to be rising costs, which are increasingly difficult to absorb without passing on to shoppers.

That said, the industry is resilient and seeking to re-invent itself for the future. Improvements in the labour market and an expanding population signify a potential for growth in Scottish retail spend over the next decade, if the right support is in place. To make the most of that potential and the industry's economic and social contribution, we remain keen to progress a retail strategy with you.

Whilst we didn't agree with every aspect of the last Budget, there was much in it we could get behind. Firms breathed a sigh of relief that it was passed in a timely fashion, given the backdrop of there already being more than enough political and economic uncertainty.

MSPs will rightly and robustly scrutinise the tax and spending plans for the coming year. However, given that uncertainty persists, we hope a collegiate approach amongst MSPs will ensure that a Budget can be passed quickly.

To inject further certainty into fiscal decisions, we believe there is merit in pursuing a two-year Budget Accord with other political parties. This would allow for a more strategic and less piecemeal approach towards policy making, ideally with input from business.

The Scottish Fiscal Commission's anaemic outlook for economic growth and household earnings are sobering, presenting a challenge for retailers let alone government revenues.

Your upcoming Budget provides a great opportunity to bolster growth by supporting consumer confidence and business competitiveness, helping retailers keep down the cost of living, and by delivering greater fiscal certainty. I commend the following recommendations to you as you determine your tax and spending plans.

Your sincerely,

DAVID LONSDALE
Director, Scottish Retail Consortium

P.S. If the UK exits the EU in a disorderly manner that may have consequences for many retailers and their supply chains. In that event we recommend you consider a fiscal stimulus involving business tax reductions and review all impending regulatory moves that add costs to consumers and firms, with a view to delaying implementation until the situation becomes clearer.

OUR CHIEF RECOMMENDATIONS:

- INJECT CERTAINTY INTO FISCAL DECISIONS THROUGH A 2-YEAR BUDGET ACCORD
- PUBLISH A TIMETABLED PLAN TO SUBSTANTIALLY REDUCE THE HEADLINE BUSINESS RATE POUNDAGE
- RESTORE THE LEVEL PLAYING FIELD ON THE LARGE BUSINESS RATES SUPPLEMENT SO THAT ALL FIRMS BENEFIT FROM THE MOST COMPETITIVE RATES REGIME IN THE UK
- BOLSTER CONSUMER CONFIDENCE BY RULING OUT INCREASES IN INCOME TAX RATES
- DELIVER ON PREVIOUS WELCOME COMMITMENTS TO CO-PRODUCE A RETAIL INDUSTRY STRATEGY

CUT THE COST OF DOING BUSINESS

Tangible headway is being made on recasting the rates system for the future, particularly the legislative plans for more regular revaluations and reducing the implementation period between valuations being undertaken and coming into effect. We applauded the scrapping of the proposed rates levy on out of town premises, and the below-CPI cap on this year's poundage rate increase. However, this should not be the limit of our ambition on business rates.

Retail accounts for 22% of rates, and the overall burden remains onerous with the poundage rate now at a 20-year high . Retailers faced a further £13.2 million uplift in their rates bills in April. Indeed, many retailers are liable for the headline poundage rate, the large firms' supplement, and a Business Improvement District levy on top. Councils will soon be able to introduce workplace parking levies, on top of the rates firms' already pay on parking places.

The poundage rate has increased from 40.7% to 49% since the start of this decade. For the 22,000 commercial premises (of which 5,065 are retail) subject to the large business rates supplement, the comparable figures are 41.4% and 51.6%.

Despite this year's below-inflation uplift in the poundage rate, retailers' bills still increased by more than double the uplift in Scottish retail sales over the past 12 months. The early announcement of a CPI-linked uplift for 2020-21 does provide predictability for budgeting purposes. That said, our strong preference is for a freeze in the poundage rate for the coming year, as a first step towards reducing the rates burden.

Returning to a substantially lower poundage rate is unlikely to happen overnight. This is why we seek a timetabled plan to lower the rates burden, coupled with restoration of parity and the level playing field with England on the large firms' supplement. This would increase retailers' confidence about investing in refurbished and new shop premises.

23% of commercial premises liable for the large business rates supplement are shops, making it more expensive to operate on our high streets and retail destinations. The rate is higher here than down south, at odds with the administration's goal of "making Scotland the most competitive place to do business". The Barclay Rates Review said this higher supplement 'damages perceptions' of Scotland as a place to invest, and recommended the level playing field be restored by April 2020. This Scotland-only surcharge costs Scots firms £65 million extra each year, of which retailers account for £14.1 million. It raises the hurdle for attracting commercial investment, making investment decisions more marginal and increasing the attractiveness of investment in digital routes to market instead. Eradicating this discrepancy would ensure every property benefits from the most competitive rates regime in the UK.

Scotland's rates system has been bedevilled by ad hoc rates supplements over recent years, including the large retailer levy in 2012-15, the 2016 doubling of the large business supplement, and the recently rejected proposal for a levy on out of town premises. A moratorium on new or additional levies or supplements should be put in place for the remainder of this parliament.

Small firms' rates relief is a welcome recognition of the need to keep down costs for firms, however three quarters of retail employment is with firms who do not qualify. We are sceptical about fresh conditions on eligibility. Greater effort should be made to encourage councils to use their powers to reduce business rates, as only three councils have thus far capitalised on this. SRC has supported local flexibilities such as the local discretionary rates relief, Business Improvement Districts, and the Business Rates Incentivisation Scheme, however we are firmly opposed to repatriating control over the poundage rate to local authorities.

NEW LEVIES AND REGULATORY COSTS

Legislative plans for a workplace parking levy will simply add extra cost and complexity. It will see firms' taxed twice for the parking places they provide for staff, on top of the business rates already paid on those spaces. The lack of any business and regulatory impact assessment to accompany the introduction of this new tax was unfortunate, and even now there is still a paucity of information over the practicalities of its implementation. If Parliament is determined to proceed then safeguards ought to be introduced, including a cap on the amount charged, a sunset provision as with BIDs, consistency amongst councils implementing it, a focus on assisting compliance rather than enforcement, and receipts transparently used for additional transport services.

Retailers have strong environmental credentials and have taken a lead in reducing their carbon footprint. The industry is working constructively with government on its plans for a nation-wide deposit return scheme (DRS) for drinks containers, which will require retailers and others to take back and store containers. In many instances this may involve store refits and the purchase of reverse vending machines, with a potential upfront cost of at least £100 million plus ongoing costs.

Scottish Ministers should offset or underwrite the purchasing and installation of these machines. If these mandated changes are classed as improvements they could affect the rateable value of the premises which host them, increasing rates bills and perhaps affecting the property's entitlement for reliefs or bringing them into the scope of the large firms supplement. Early clarity on this is required, as is whether the 20-30p deposit will be liable for VAT on top.

The industry has worked positively to introduce the carrier bag levy, and several of our members now either don't sell 5p bags or already charge 10p. The Budget accord signifies an increase the single use carrier bag charge to 10p. We remain concerned with the notion that part of the proceeds will be handed to local authorities, at odds with the approach taken thus far and with no detail as to how this would work in practice.

Retailers are making great progress on increasing recycling of disposable drinks cups and encouraging the use of re-useable cups. The Budget Accord pledges to charge for cups. It also says consideration will be given to handing the receipts to councils, which we would be deeply sceptical of. Clarity is required in early course over how such a charge will be levied, how remittances to councils would work in practice, how the charge will be applied equally to all businesses, and the timeline for implementation.

SUPPORTING CONSUMERS

Household finances continue to be under strain, with above-inflation rises over recent months in council tax and a 2% uplift in the statutory minimum that employees must contribute to their pensions. Other rises to the cost of living are in the public policy pipeline, including new charges on drinks bottles and disposable drinks cups, restrictions on the promotion of foods, and a higher carrier bag charge. Policymakers should be wary about heaping further pressure onto family finances over and above those already planned.

The approach taken thus far on income tax – namely to protect workers on low or modest earnings – is the right one. The emphasis now should be on bolstering household disposable incomes and consumer confidence, including ruling out increases in income tax rates.

The Budget Accord with Green Party MSPs contains a commitment to cross party talks on replacing council tax. SRC is open to reform or replacement of council tax. However any changes should take into account the impact on consumer spending, any administrative implications for employers, and any implications for business rates. We would be concerned if talks alighted on wider aspects of local government finance without an opportunity for business to contribute before decisions are made, especially with so much effort having gone into the Barclay Review.

FLEXIBLE WORKFORCE DEVELOPMENT FUND

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 other accredited or job-related qualifications. Through Rethink Retail we are positioning the industry as a career of choice, improving the retail specific leadership, management and apprenticeship training on offer. Retail is an industry of opportunity, with many careers which start in stockroom ending up in the boardroom.

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 the £15,000 cap per firm which is too low and 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. minimum unit pricing of alcohol. Ministers should publish transparent data which show how the Scottish revenues from the Apprenticeship Levy have been spent.

TOWN CENTRES FUND

Retailers supported the introduction of the new one-year funding pot to boost the re-invention of our high streets, to turn them 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 fund is promising, yet there is little sense thus far as to its impact. If Ministers are minded to extend it for a further period then some sort of evaluation will be required. Where BIDs or others have good ideas they should be eligible to access the cash, and councils should be allowed to use this fund to cut business rates.

A FIT FOR PURPOSE REGULATORY FRAMEWORK AND GOVERNMENT INFRASTRUCTURE

Regulation is important to protect consumers, the environment and businesses. The SRC and government have worked closely to deliver a regulatory environment which is effective and which supports investment and innovation. Steps have been taken to ensure the same rigour is brought to government-inspired voluntary regulation as is the case with formal, statutory legislation. Legislation has been introduced to allow for the introduction of Primary Authority, which could guarantee greater regulatory consistency across local authorities, however its actual implementation has stalled. The Budget Accord is introducing new taxes and charges with little evidence of any impact assessment being undertaken. With further devolution on the cards given the repatriation of powers to Holyrood following Brexit, the government's Regulatory Review Group should be tasked with ensuring all processes are fit for purpose.

The government has shown itself to be adept at reshaping public services, e.g. through structural reform to police and fire services, to ensure value for money. Ministers should consider whether further structural reform could be applied elsewhere, such as to the number of local authorities, planning authorities, licensing boards and rates assessors. They could also consider what opportunities for service improvements and efficiencies might come from enabling retailers and others to choose from a range of licensed building standards verifiers when building warrants are applied for.

WINDFALL CONSEQUENTIALS

Any windfall 'consequentials' which emerge from UK Budgets ought to be used to keep down business taxes and for town centre regeneration and GDP-enhancing infrastructure which benefit the business environment.

ABOUT THE SRC

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

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.

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.

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