Road to Recovery

Key Points:

1. Covid-19 will reshape Scotland’s economy. It will require radical measures from Government to protect jobs and restart economic growth.

2. We anticipate the retail industry, and others, will shrink and produce less revenue in the immediate term. Retail is Scotland’s largest private sector employer, with 240,000 workers, provides a vital route to market for Scottish producers and manufacturers, and is often the beating-heart and lifeblood of town and city centres. Therefore, supporting the recovery of the retail industry must be a priority for Scottish policymakers. Nonetheless, with the right policies we believe the industry can recover and continue to grow beyond the existing £25 billion per annum it contributes to the Scottish economy.

3. It is essential the very significant costs of lockdown and trading under social distancing and Covid-19 restrictions are recognised. Government will have to lighten, rather than increase, the burdens for businesses in the immediate and medium term.

4. Retailers still do not have firm clarity over when they will be able to reopen stores. These timings are inconsistent across the UK, providing immense challenges for Scottish headquartered and other retail businesses who are also having to adapt to a myriad of complex, and occasionally contradictory, series of guidance and legislation. Ultimately inconsistency increases costs for retailers and should be avoided unless there are clear public health reasons for the discrepancies.

5. Retail trading is likely to be weak following the easing of lockdown. We suggest temporary measures to encourage and sustain consumer spending and a reduction in the costs of operating, especially from physical premises.
   a. Stimulus measures could include: temporary reducing income tax or land and business transactions tax, a short-life environmental scrappage scheme, or direct cash payments to consumers.
   b. Tapering the end of non-domestic rates relief to prevent an immediate spike in costs and ‘reverse cliff edge’ at the end of March 2021.

6. Public policy will need to adapt to a very different economy. That could include a strategic review of Government, Local Authorities, and Agencies to prioritise what is essential to keep Scotland as a fantastic place to live, work, and trade.
   a. This should include a holistic and consistent approach to public policy, steps to alleviate high public policy costs for businesses (such as the deposit return scheme) and a moratorium on new policy measures (including implementing previously announced measures) until the economy has recovered.
   b. The Independent Budget Review undertaken by Crawford Beveridge in 2010 could be dusted down and considered, especially those parts which deal with slimming structures of government and/or which might generate savings in public spending.
c. The Scottish Government should reassess its approach to skills funding for the retail industry and give greater access to the revenues retailers pay into the Apprenticeship Levy.

Retail and Covid-19

7. The Scottish retail industry has been affected at every level by the coronavirus crisis. While pharmacy, food, and essential retail have been adapting continually, the reality is all shops have been radically changed by the last few months.

8. It is important to note the importance of the measures taken by the UK and Scottish Governments to support the industry. Rates relief, grants, and regulatory flexibility have enabled retailers to survive an existential challenge.

9. Essential retailers who are trading have had to take many, expensive, steps to continue to trade safely. Retailers have invested in PPE and face-coverings for workers, as well as screens, floor markings and barriers, social distancing signage, and extra colleagues e.g. for marshalling queues. That investment alone is already more than £9 million in Scotland. They have also made very significant investment in enhancing and expanding digital retail to support customers, especially those who are shielding. Those costs are likely to exceed the business support provided during the crisis.

10. For those businesses forced to close under lockdown that support will enable many to reopen as lockdown is eased. However, many are already preparing for a very different economic and trading environment. If social distancing rules become more permanent, that will change how stores are operated, and likely continue the very significant move to online. Those changes, which we believe are an acceleration of existing trends, are likely to have a significant impact on the number of physical shops and workers employed by the industry.

11. The retail industry has found the different approaches taken by the four Governments in the UK challenging. Whilst we recognise there has been a different timeline due to the manner in which Covid-19 has spread, it's hard to understand why official guidance on social distancing, or which businesses are permitted to trade, or NDR reliefs or grant schemes have been dealt with so differently in the different nations. Similarly, the determination for there to be different approaches to supporting those shielding and to testing makes it very hard for businesses looking to adopt consistent best practice.

Part One – Immediate Impact of Coronavirus on the Economy

12. Our Scottish Retail Sales Monitor for April (the first complete month of lockdown conditions) saw total sales plummet by 40.3%. Even though food retailers were able to trade and despite the closure of pubs and restaurants, food sales fell by -2.4 percent. The below graph indicates the trajectory of sales since the crisis began:

MONTHLY TOTAL SALES GROWTH YEAR-ON-YEAR
13. The wider economic outlook is very challenging. Recent economic updates from the Office of National Statistics show a fall in employment, hours and pay. There has been a significant spike in Universal Credit claimants. Many businesses are in immense difficulty despite unprecedented fiscal support from the UK and Scottish Governments. We are concerned these issues will be exacerbated as, inevitably, and understandably, government support packages such as the Coronavirus Job Retention Scheme and the Retail, Hospitality and Leisure Grants Scheme reach the end of their lives.

Part Two – Reopening Stores

14. The immediate challenge for many retailers is they are unable to trade. Whilst keeping the public safe and healthy is paramount, clarity over when and how retailers can return to trading is a crucial step in restarting the economy. That clarity allows workers to be brought back from furlough, supply chains to be restarted and encourages other industries to return to work as well – i.e. those who provide services to retailers and their suppliers.

15. Retailers have found the lack of consistency in approaching reopening to be very challenging. The differing approaches to exiting lockdown across the UK e.g. traffic lights in Wales, steps in NI, phasing in England, and phasing in Scotland, make it hard for retailers to take a cost-effective approach. That affects both the timescale and approach to re-opening in the different nations.

16. In the short-term there should be a commitment to minimise these differences unless there is clear and relevant evidence which explains why a different approach is necessary in one part of the United Kingdom.

17. We recognise there is a risk that a second lockdown period may be required if it is not possible to eradicate covid-19 in Scotland. That is in itself highly undesirable and would put a number of retailers in significant jeopardy. However, from a purely economic point of view, ensuring retailers can trade during the crucial Christmas trading period is vital to ensure many retailers can remain sustainable.
18. Retailers will have very limited cash reserves and are likely to face very significant costs when reopening and operating stores. These include protective equipment and installations and supporting workers unable to work due to shielding/health/childcare commitments. There are also likely to be further unidentified costs as we continue to establish best practice.

19. Experience from the continent where some stores have re-opened suggests customer demand will not revert to pre-crisis levels for some time, especially while social distancing restrictions remain in place and fears linger whilst there is no vaccine. We are also very concerned the challenges faced by other industries (tourism for example) may significantly impact on consumer spending.

20. Some degree of shifting in consumer behaviour in terms of digital buying patterns will remain.

21. The experience thus far from UK retailers with operations in the rest of Europe is footfall and demand will remain below trends; retail parks and local shops appear to be trading better than city centres and high streets.

We therefore believe the Scottish Governments should, from early this autumn:

22. Take short-term steps to boost consumer demand. This could include one or a blend of:
   b. A temporary reduction/threshold change in Land and Business Transactions Tax to encourage and stimulate home purchases and the housing market, which would in turn aid furniture, home furnishing and household appliance retailers.
   c. A temporary scrappage scheme focused on encouraging consumers to trade in older less energy efficient items, for example old washing machines or electrical appliances, for modern environmentally more friendly items.
   d. A direct cash payment (perhaps means tested for less affluent households) to encourage spending on non-essential or discretionary goods. Ideally this would be a time-limited scheme to encourage immediate spending.
   e. Take account of the impact on consumer spending of any proposed reform or replacement of council tax or local government finance (given the current cross-party talks)

23. A one-year moratorium on new public policy measures which are not related to protecting workers and colleagues and customers from Covid-19.

24. Fiscal support for businesses who are impacted by colleague absenteeism resulting from the Scottish Government’s Track, Trace, and Isolate policy. It’s conceivable businesses could lose whole shifts from their workforce if a colleague develops symptoms – some measure of compensation is likely to be necessary.

25. Remove parking charges in town centres in the short-term to encourage consumers to return to the high street without recourse to public transport. This will help encourage footfall and consumers to shop locally and support small businesses.

26. Establish a realistic model for how town and city centres can operate within the context of physical distancing measures. This should include managing transport infrastructure, establishing how local authorities will manage queuing outside businesses, and how enforcement bodies and Police Scotland will support businesses as they manage the new restrictions.
Part Four – Longer-Term Measures

27. We believe the economic changes brought forwards by Covid-19 are likely to significantly accelerate the process of retail transformation which was already taking place.

We anticipate:

28. If predictions that the economy will significantly shrink over the next 18 months become true, that will significantly impact on discretionary spending – with a concurrent effect on retail profitability and sustainability. The unwinding of the furlough scheme, the impact of significant distress in the hospitality, tourism, aviation, and export industries, and the cumulative effect of low consumer confidence will make it very hard for retailers to generate sales.

29. If social distancing measures become fixed measures that will have an increase on operational costs for retailers and suppliers. Without intervention those costs will have to be accounted for, whether through changes to provision or perhaps rising prices.

30. We remain very concerned about the impact of a ‘second wave’ of Covid-19 which could force another round of store closures. If that were to happen in the key Christmas trading period (October-December) it is likely many retailers would struggle to continue to operate without assistance.

31. Covid-19 will increase the already very high costs of operating from physical premises. These increased costs, when combined with a shift in customer attitudes, and with the prospect of reduced sales and footfall due to recession, will create a series of fiscal incentives which make operating shops unattractive.

32. Not every store which closed in March will reopen. For some businesses the impact of this crisis will exacerbate the existing pressures to a point which is no longer sustainable.

33. Retail stores which are most at risk are more likely to be from economically vulnerable communities. Different employment patterns resulting from both covid-19 and the consequences of wider homeworking may also impact significantly on retail businesses.

34. Retail employment will we expect continue to decline, but the remaining retail jobs will be higher paid and higher skilled.

35. Retail businesses will struggle to generate significant profits in the next few years if the economy falls into recession. This means the costs of public policy measures are more likely to be passed along through higher prices/weaker service to consumers.

We therefore believe the Scottish Government should:

36. Consistent Policy Making
   Take a holistic approach to public policy measures to prevent contradictory approaches for retailers. The historic approach where retailers have to balance competing demands from Government, for example between encouraging and supporting Scottish suppliers but discouraging selling High Fat Salt and Sugar (HFSS) products made by those suppliers, cannot continue. A priority should therefore be completing the proposed Scottish Retail Strategy and committing to a holistic approach to Scottish public policy as it applies to the retail industry.

37. Non-Domestic Rates
a. There needs to be a genuine assessment of how NDR will interact with the post-Covid-19 Economy. Valuations and business models may change swiftly and inappropriate rates (and a return to a business rate at a 21-year high) may drive unintended and unwanted behaviour changes.

a. Introduce a taper to Non-Domestic Rates Relief into the 2021-2022 financial year so prevent a sudden increase in costs ('reverse cliff edge') as businesses balance the cost of changing their business models to operating under physical distancing regulations.

b. Continue to keep the Non-Domestic Rates poundage competitive and continue the process of lowering the overall rates burden on physical retailers.

c. Examine how best to use the rates system to incentivise long-term measures by businesses who have reduced their carbon footprint/emissions from stores.

38. Skills

a. Commit that a higher portion of the Apprenticeship Levy Revenues raised from retailers in Scotland will be assigned to up-skilling retail workers – including reforming the Flexible Workplace Development Fund. Retailers in Scotland can access barely 5% of the amount they pay in Levy, unlike counterparts down south.

b. Work will be needed to ensure citizens are able to access digital products and services. Its likely more retailers will operate from fewer stores and therefore Government will need to consider how to deliver that support to consumers – perhaps there is a role for the new Consumer Scotland body in this work.

39. Public Policy, Agencies, and Local Authorities

a. Take forward a clear review of Scottish Government business support and agencies to ensure there is a clear return on investment. Business support is a de facto subsidy from productive to other parts of the economy and therefore should be done where there is clear evidence of a wider benefit to the economy.

b. Review the number of Scottish Local Authorities and their functions, planning authorities, licensing boards and rates assessors, to ensure there is a need for the current provision. Enable retailers and others to choose from a range of licensed building standards verifiers when building warrants are applied for, rather than the monopoly local authority provision as at present. Dust down the report of the Independent Budget Review to see whether the structural changes and the opportunities for savings it proposed could still be implemented.

c. Bring forward either a primary authority, or similar proposals, which provide regulatory consistency across Scottish local authorities on devolved regulations. The need for this has become clear as retailers try to implement a gamut of new regulations which are being enforced differently across Scotland. The primary legislation is already on the statute book.

40. A VisitScotland marketing campaign to promote Scotland as a visitor destination to people elsewhere in the UK.

41. Rejuvenate retail destinations such as town centres and high streets by:

a. Re-instating the Town Centres Fund to improve the public realm of our high streets, which BIDs and others with good ideas can access.

b. Committing to improving transport infrastructure to encourage consumers to visit town centres.
42. Flex planning rules so there is a presumption in favour of development in order to boost house building; albeit recognising retail's vital role in town centre locations.

43. Current/Upcoming public policy needs to be re-assessed in light of the economic challenges presented by Covid-19. Following a one-year moratorium on new policy measures we also believe the Scottish Government should consider:
   a. Ruling out externality charges on consumer products, such as the proposed charge on coffee cups, until the economy has recovered.
   b. Ruling out new mandatory reporting targets (such as those proposed on food waste) until the economy has recovered. If they are unwilling to do so, there should be serious consideration made to the lightest way these measures can be implemented, for example on a UK basis.
   c. Ruling out business charges, such as the Workplace Parking Levy or the Tourism Tax, until the economy has recovered, and then reassess if those measures are still appropriate for the Scottish economy.
   d. Consider whether the Deposit Return Scheme, with its £268 million cost to retailers, should remain an investment priority. If it is still a priority:
      i. Explore offering direct financial support to cover the expected £100 million cost of purchasing Reverse Vending Machines ahead of the expected July 2022 introduction.
      ii. Consider if the July 2022 date is still realistic, as it was predicated on the economy and operating models which existed before Covid-19. Retailers have had to suspend all work on DRS since March due to this crisis.
      iii. Assess what practical steps, such as changes to the planning system, should be taken to help retailers make up the implementation time lost due to the significant investment in responding to Covid-19.

About the SRC

44. 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.

45. 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.

46. 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.

47. Retail is the largest private sector employer in Scotland with over 240,000 workers. The industry is one of the largest sectors of the Scottish economy, with the potential to grow by £3 billion over the next five years to a total
turnover of £28 billion. Despite the structural change the industry is going through, it will continue to play a vital and valued role in communities across Scotland.

48. A thriving retail industry is good for jobs, for investment, for tax revenues, for keeping down prices for consumers, for communities and even for our pensions. The industry is also one of the most innovative. This is evidenced over recent years through significant new investment in store formats and layouts including online, in-store technology and order points, home delivery and distribution capabilities, click and collect services, digital customer loyalty and payment arrangements, and new and refreshed own-brand products.