STIMULATING A SUSTAINABLE RETAIL RECOVERY

RETAIL INDUSTRY RECOMMENDATIONS FOR THE 2022-23 SCOTTISH BUDGET

SRC

A SNAPSHOT

RETAIL: SCOTLAND'S LARGEST PRIVATE SECTOR EMPLOYER

230,000
SCOTS WORK IN RETAIL DIRECTLY

£4.5 BILLION
OF SCOTTISH RETAIL SALES LOST DURING PANDEMIC

£16.4 MILLION
RAISED OR DONATED TO SCOTTISH GOOD CAUSES IN 2020

3,000
SHOPS PAY THE HIGHER PROPERTY RATE

16.1%
SHOP VACANCY RATE

Economic Overview

The past seventeen months of the Covid pandemic have been the most challenging and tumultuous period for Scotland's retail industry in decades, with sharp consequences for large swathes of the industry many of whom continue to face an uncertain future. Shopper footfall remains 27% below pre-pandemic levels, shop vacancies have spiked to a six-year high, and retail sales in Scotland while recovering have yet to claw their way back to pre-pandemic levels and remain lacklustre. Indeed, stores in non-food categories – most of whom were prevented from trading for at least 220 days - are still trading at only 90% of what they did prior to the pandemic, despite having been permitted to re-open four months ago. This places a question mark over the viability of some stores; and comes after Scottish shops spent in excess of £50 million on physical distancing and hygiene measures and PPE.

The industry has publicly praised the substantial and swift support that has been on offer from government for the sector during the crisis, especially the business rates waiver, furlough scheme, grants and loans. As the guardrails of State support for the economy are withdrawn, some support will likely be required in the transition. Given continued turbulent trading conditions it is likely that it will take time for retailers to pay back the Covid loans and tax deferrals and other debts (e.g. unpaid rents accrued whilst shops were shuttered), more so as they grapple with various upcoming policy challenges which are being introduced (e.g. deposit return scheme for drinks bottles, extended producer responsibility, packaging tax etc).

[1]SRC-Shoppertrak Footfall Monitor, 6 August 2021
[2]SRC-LDC Shop Vacancy Monitor, 30 July 2021
[3]Scottish Retail Sales Monitor, 20 July 2021
[4]Retail and wholesale sectors account for 17% of CBILs and 15% of Bounce Back Loans – above their share of the economy - according to UK Finance

CHIEF RECOMMENDATIONS

- ACTION TO STIMULATE CONSUMER SPENDING AND ENTICE PEOPLE BACK TO CITY CENTRES
- NO INCREASE IN INCOME TAX RATES FOR LOW AND MODEST EARNERS
- A MODEST FURTHER DISCOUNT TO BUSINESS RATES IN 2022-23
- EARLY PROGRESS TOWARDS RESTORING THE LEVEL PLAYING FIELD WITH ENGLAND ON THE LARGE BUSINESS RATES SUPPLEMENT, SO ALL FIRMS BENEFIT FROM THE MOST COMPETITIVE RATES REGIME IN THE UK
- PAUSE ANY INTRODUCTION OF WORKPLACE PARKING LEVIES AND REJECT A BAN ON SHOPS FROM TRADING ON NEW YEAR'S DAY

SCOTTISH BUDGET 2022-23 – SRC PRIORITIES

STIMULATE CONSUMER SPENDING

Consumer spending is the mainstay of Scotland's economy, yet seventeen months on from the onset of the pandemic and retail spending has yet to recover to pre-pandemic levels. SRC estimates stores have missed out on £4.5 billion of revenue during this period. The problems are especially acute in city centres where shopper footfall is weakest, and where we've yet to see a return of the likes of office workers, students and tourists. Retailers are playing their part in trying to tempt shoppers back, however policy makers could do more to help reignite consumer confidence and entice people back, especially ahead of the crucial 'golden quarter' of pre-Christmas shopping (Oct-Dec). This is traditionally when retailers generate the funds required to tide them through the leaner period in the early months of the new year. The £2 million Scotland Loves Local Fund for 2021-22 is a promising move to enhance the viability of our town centres, however this shouldn't be the limit of our ambition – policy makers need to think more creatively and at greater scale about enticing shoppers back e.g. through temporary free parking, and/or a government advertising campaign to encourage people back to city centres, and/or a high street voucher scheme as the Northern Ireland Executive is introducing. A voucher scheme could trigger additional spending by shoppers beyond the value of the voucher transaction and create an even larger economic multiplier.

Rises in the cost of living are in the pipeline, including a new statutory charge in Scotland on drinks bottles. Policymakers exert significant influence over the amount of money in people's pockets and discretionary spending, and should be wary about adding further pressure on to family finances over and above those already planned. As such, Ministers ought to continue to protect workers on low or modest earnings from rises in income tax rates.

We note the plans in the Scottish Government/Green Party accord to review council tax and are open to reform or replacement of it. However, any changes should take into account the impact on consumer spending or any administrative implications for employers.

COMPETITIVE NON-DOMESTIC RATES

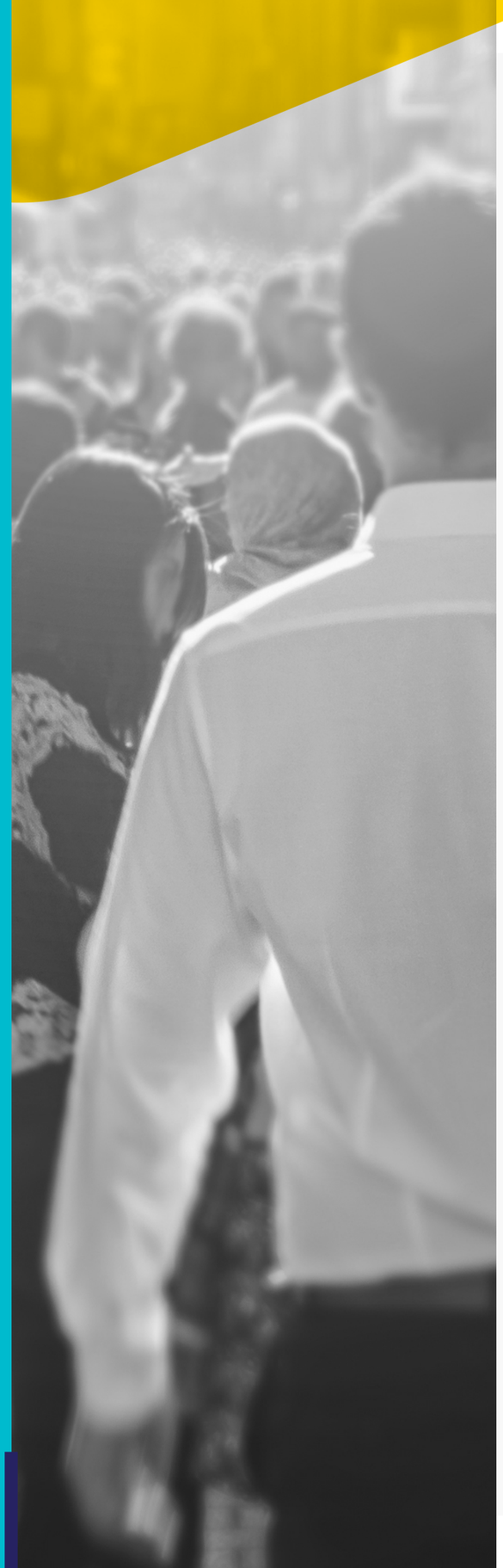
Retail traditionally contributes a fifth of business rates. The rates relief on offer during the pandemic has been absolutely critical for the industry, much of which ceased to trade at least twice. It provided timely cashflow assistance, and helped firms fund Covid safety expenditure and changes to their business models. However, we are several months through the current financial year (and seventeen months on from the onset of Covid) and retail sales have yet to return to pre-pandemic levels. Instead of a rigid re-instatement of 100% business rates next April, which were at a 21-year high prior to the crisis, Ministers should consider a modest further discount to business rates in 2022-23 to reflect market reality (up to the new valuations coming into effect in 2023-24) especially if retail sales don't pick up on a sustained basis. An early decision would be most helpful, as would a timetabled route map towards lowering the poundage to a permanently more sustainable level.

The SNP manifesto contained a welcome pledge to restore the level playing field with England on business rates for larger commercial premises. This new 'poundage rate rule' or cap will benefit 3,000 Scottish retail premises, a quarter of all commercial premises affected, who pay the Higher Property Rate on top of the headline poundage rate (and in addition to any BID levy they pay). Early progress towards restoring parity and the level playing field would be helpful and provide certainty; and would mean all firms in Scotland would benefit from the most competitive rates in the UK.

The small firms' rates relief recognises the need to keep down costs for firms, albeit three quarters of retail employment is with firms who do not qualify. We are sceptical of the notion that fresh conditions on eligibility should be applied.

We are opposed to re-localisation of business rates and welcomed Parliament's backing in February 2020 for continuation of the uniform business rate. Councils should be encouraged to consider using the discretionary rates relief power (from the 2015 Community Empowerment Act) which allows them to cut business rates.

We note the SNP manifesto commitment to explore the introduction of a new rates levy on premises where the owner is registered in a tax haven. The value, impact and practicalities of this remain unclear, indeed it may well have little bearing on retail. However, we would caution against a move away from the thrust of recent reforms which have sought greater simplicity, less complexity and more competitiveness in the rates system.



PAUSE NEW LEVIES AND RED TAPE

During the pandemic Ministers shrewdly postponed new regulations in order to lessen the workload on firms. Government should continue with this pause for now, to allow retailers the breathing space to recover.

Over and above this, any notion of introducing a permanent regulatory prohibition on shops from opening to customers on New Year's Day ought to be shelved .

The introduction of workplace parking charges will add extra cost (business rates are already levied on parking spaces) and complexity. Local authorities should put on pause any such levies over the coming financial year to aid recovery. More broadly, we would caution against introducing any new taxes or levies on business which might make Scotland a more expensive place to operate, to invest or live in.

We note the pledge in the Scottish Government/ Green Party accord to consult on compelling firms with over 250 staff to publicly disclose each year how climate change will affect their business. Our understanding is that firms are already obligated to disclose their energy and carbon emissions under UK rules, and so further detail is needed as to how this dovetails with that, what it is designed to achieve, and the implications.

DELIVER THE RETAIL STRATEGY

Following representations from SRC, we were delighted the First Minister included a pledge to establish a Scottish retail strategy in her 2020 Programme for Government. A steering group has since been established and we hope this work will conclude towards the end of 2021. It is conceivable the strategy's recommendations may have a fiscal implication. As such, it would be sensible for the Budget to include funding for the delivery of these recommendations, as well as for implementing the conclusions of the concurrent city centres recovery taskforce and the expected Ministerial response to the review of the town centres action plan.

SKILLS AND THE FLEXIBLE WORKFORCE FUND

A more highly skilled workforce will be key as the industry transforms itself for the future. As such, further improvements are required to the flexible workforce development fund such as lifting the 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 and Covid restrictions.

COST OF GOVERNMENT

The Scottish Government has a substantial annual budget. As outlined in our submission last year to the Economic Recovery Advisory Group, the Independent Budget Review undertaken by Crawford Beveridge in 2010 ought to be dusted down and re-considered, or a new review commissioned, to see whether the structural changes and opportunities for savings it proposed (or similar) could be implemented. Any resulting savings from this, and a review of the number of public bodies like local authorities and rates assessors, could be redeployed to support economic growth and reduce the burdens on business.

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 which has been accelerated by the Covid pandemic. The trends are clear - 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 £200bn of retail sales and employing over one and half million employees. In addition to publishing leading indicators on Scottish retail sales, shopper footfall and store vacancies, our policy positions are informed by our membership and determined by the SRC's Board.

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SCOTTISH RETAIL CONSORTIUM

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