WEATHERING THE STORM: TACKLING THE COSTS CRISIS

Retail industry recommendations for the 2023-24 Scottish Budget

SRC

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Retail is Scotland's largest private sector employer, a powerhouse sector with a presence in every community

233,000 SCOTS WORK IN RETAIL

22,000 SHOPS IN SCOTLAND

£16.6M RAISED OR DONATED TO SCOTTISH GOOD CAUSES LAST YEAR

RETAIL ACCOUNTS FOR 22% OF BUSINESS RATES

2,970 SHOPS PAY THE HIGHER PROPERTY BUSINESS RATE

INTRODUCTION

Autumn 2022

Dear Deputy First Minister,

Few industries play such a crucial role as retail in keeping down costs for households, creating job opportunities for young people, and investing in our communities and net zero.

Retailers are responding to surging inflationary pressures and the squeeze on household budgets by keeping prices down on essential items, by expanding their value ranges, and discounts for more vulnerable customers, all of which helps keep down the cost of living.

Retailers are striving to do their best against a backdrop of sober forecasts for economic growth and their own cost of doing business crunch - driven by a spike in global energy and commodity prices, supply chain and freight bottlenecks, and compounded by higher taxes. Costs already in the pipeline include extended producer responsibility and next year new reporting requirements on next zero plus higher corporation tax.

The industry is working hard to sustain value for money for customers and build on its great record on community investment, whilst continuing to adapt to structural changes in the way people shop.

However, despite the industry's undoubted resilience, retail in Scotland is feeling the effects of the cost of living crunch in dampened consumer spending and weaker foot-traffic. Indeed, Scotland is seeing a weaker recovery than the UK as a whole lagging on key metrics including shopper footfall and store vacancies. This at a time when the sector is paying down pandemic-era loans, rent arrears and tax deferrals. Two turbulent years of pandemic has thwacked the industry, and further assistance is needed to help the sector support Scottish consumers to weather the current economic storm and to ensure the sector's continued economic and social contribution.

The recent publication of the Scottish Government's Retail Strategy is hugely encouraging for the longer term and the industry is playing its part in its implementation. Other welcome decisions in recent times include retention of the unform business rate, Covid fiscal support, and rejection of the legislative ban on shops opening at New Year.

The upcoming Scottish Budget provides a great opportunity to assist. At its heart should be measures which protect living standards, help retailers to keep down the cost of living, and stimulate retail investment to make for healthier retail destinations. I commend the following recommendations to you.

Yours sincerely,

David Lonsdale
Director
Scottish Retail Consortium

KEY RECOMMENDATIONS

1

Protect workers on modest earnings by ruling out increases in Scottish income tax rates, and ensure they benefit too from any acceleration to the proposed reduction in the headline rate of UK income tax

2

Ministers should be open-minded about introducing a Scotland-wide shopper stimulus along the lines of Glasgow's initiative

3

Rule out any increase in the business rate next Spring, and set out a timetable for returning the poundage rate permanently to a lower and more sustainable level

4

Speed up restoration of the level playing field with England on the higher property business rate

5

Shelve workplace parking levies for the next 18 months

6

The glut of regulation should be culled or put on pause, coupled with a focus on minimising regulatory divergence within the four home nations when policy goals are similar

RECOMMENDATIONS IN DETAIL

KEEPING DOWN THE COST OF LIVING

Consumer spending is being challenged by surging inflation and in particular soaring household energy costs. Tax and other measures including rises in employees' national insurance contributions and council tax and the recent statutory requirement to install interlinked domestic smoke alarms in Scottish homes have taken a bite out of household budgets. Further public policy increases to the cost of living are in the pipeline, including next year's deposit return scheme on drinks bottles, the proposed levy on disposable cups, and the tourism visitor levy.

Retailers are striving to keep down the cost of living for households. It remains the case that Scottish Ministers exert significant influence over take-home earnings and the amount of money in people's pockets. Our suggestions:

- Continue to protect workers on low or modest earnings from rises in Scottish income tax rates
- If the UK Government accelerates its planned reduction in the headline rate of income tax, for example by bringing it forward a year to Spring 2023, then Scottish Ministers should ensure workers on low or modest earnings benefit similarly
- There has been debate about the differential between the Scottish and UK higher and upper rates and thresholds of income tax. Any future changes should take into account the impact on consumer spending and firms' ability to attract and retain talent
- Glasgow Council has introduced a £105 shopper stimulus scheme to aid 85,000 less-well off households. Ministers should be open-minded about adopting something similar at scale if there is likely to be little uptick in the economy in the run up to Christmas or early in the new year, when household finances are often most stretched. Northern Ireland's footfall benefited enormously from its recent high street voucher scheme
- Consider a temporary extension to the eligibility criteria for the Best Start Foods prepaid card scheme - or the amount available or products which can be purchased - to aid low income households
- Policy-makers should be wary about adding further pressure on to household finances over the coming year, over and above those already planned
- With the cap on increases rescinded, local authorities should be mindful of the impact on household discretionary spending from any further uplift to council tax
- The Government/Green Party accord seeks to replace council tax. We are open to this however it should take into account the impact on consumer spending and any administrative implications for employers
- Alcohol minimum unit pricing (MUP) is to be reviewed early in 2024. The review should be mindful of the proposed 20p deposit return scheme levy which will also apply to products subject to MUP

CONSUMER SPENDING IS BEING CHALLENGED BY SURGING INFLATION AND IN PARTICULAR SOARING HOUSEHOLD ENERGY COSTS.

KEEPING A LID ON THE COST OF DOING BUSINESS

NON-DOMESTIC RATES

Retailers are facing into their own cost of doing business crunch after two challenging and turbulent years of pandemic. A key issue remains the business rate which is at a 23-year high. Tangible and positive headway has been made in recent years on rates (e.g. more regular revaluations, a reduced time between new valuations being undertaken and coming into effect, retention of the uniform business rate), however this shouldn't be the limit of our ambition as the overall burden remains high and rates rises impact cash flow. There needs to be a shift in mindset from squeezing tax revenues from business rates towards using it to encourage commercial investment in town centres and other retail destinations. Our suggestions:

- Rule out any uplift in the poundage rate next Spring as mooted in the recent Scottish Spending Review
- Set out a timetabled route map towards lowering the poundage permanently to a more financially sustainable level
- Speed up the existing commitment to restore the level playing field with England on the higher property business rate (which applies to 12,000 larger commercial premises of which 2,970 are retail). The Barclay Review said this surtax 'damages perceptions' of Scotland as a place to invest and recommended parity by 2020
- Ensure firms which are currently installing DRS reverse vending machines are able to access business rates relief for the commercial space which is being taken up
- Encourage local authorities to consider using their existing ability to reduce non-domestic rates in their areas, to reduce parking charges to aid footfall, and to take a consistent approach towards the availability and scope of empty property rates relief when it is devolved to councils next Spring
- Small firms' rates relief recognises the need to keep down costs for firms. We are sceptical of any notion about applying fresh conditions on eligibility (e.g. 'fair work') to this or other reliefs
- We oppose re-localisation and fragmentation of business rates and support the uniform business rate and the consistency and predictability it provides
- UK Ministers recently undertook a consultation on introducing an online sales tax (OST), to which we submitted members' collective views. While there are a number of different views across the industry on the concept, if UK Ministers do decide to introduce an OST our understanding is that any tax receipts would flow to Scottish Ministers via the Barnett Formula. In that scenario it would be imperative that the receipts be used fully to cut business rates for all retail businesses
- The SNP manifesto committed to exploring a new rates levy on premises where the owner is registered in a tax haven. This may well have little bearing on retail. However, the value, impact and practicalities of this remain unclear. We would caution against moves away from the thrust of recent rates reforms which have sought greater simplicity, predictability, and more competitiveness

OTHER TAXES AND OUTLAYS

Retailers are subject to a wide range of cost rises at the present time. Introducing existing public policy measures such as next year's deposit return scheme has significant capital expenditure and cash flow implications for the industry. Against this backdrop, our suggestions are:

- Workplace parking levies are a charter for extra cost and complexity, especially as firms already pay business rates on the parking places they provide for staff. The introduction of any such levies should be paused for eighteen months at least
- The Scottish Government determines or influences various fees, charges and levies applicable to retailers e.g. planning application fees, business improvement district levies, charges for alcohol licenses, water and sewerage charges, fees for building warrants, the carrier bag charge. Any variations in the amount charged must be based on dialogue with industry, underpinned by a clear rationale, with commensurate improvements in service
- The land and buildings transaction tax applying to purchases of commercial property must remain competitive
- The flexible workforce development fund should be improved by 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 training budgets towards implementing public policy, as has happened in recent times with Covid rules, alcohol minimum unit pricing etc

> RETAILERS ARE FACING INTO THEIR OWN COST OF DOING BUSINESS CRUNCH AFTER TWO CHALLENGING AND TURBULENT YEARS OF PANDEMIC.

REDUCING THE COST OF GOVERNMENT

The devolved administration has a substantial annual budget of £40 billion. However, the Scottish Spending Review outlined the need to cut costs and think differently about how services are provided. This is exactly what retailers do day in and day out. It matters profoundly that Ministers succeed in reducing the cost of government, otherwise taxes might rise and the recovery and economic growth be held back. Our suggestions:

- The report of the Independent Budget Review undertaken by Crawford Beveridge early in the last decade 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
- The number of public bodies including local authorities, rates assessors and licensing boards could be reduced
- Permit retailers to choose from a range of licensed building standards verifiers when building warrants are being applied for, to speed up the service and get establishments trading promptly
- Building on the success of initiatives like the Pharmacy First scheme where Scotland leads the way in the UK, the Scottish Government and NHS could make more use of the likes of community pharmacies and opticians to provide more accessible healthcare services on the high street and to reduce the pressure on GPs for minor ailments. For example, harnessing the expertise of pharmacists as experts in medicine, alongside a greater focus on preventative healthcare and the services already provided (e.g. smoking cessation, emergency hormonal contraception and provision of NHS flu vaccinations where available), has the potential to support the NHS' recovery by adding capacity that would relieve pressure on primary care and ease patient backlogs, ensuring the health service is resourced to deliver improved outcomes and value for money for taxpayers
- The swathe of devolved regulatory interventions being implemented or considered should be reviewed, with some trimmed or put on pause. The legislative pipeline should focus on the more important, bigger impact measures. Over and above the deposit return scheme for drinks containers, there is a veritable gamut of initiatives e.g. HFSS restrictions on in-store food promotions, bans on single use plastics, externality levy on disposable cups, mandatory calorie labelling on eateries' menus, curbs on the sale of fireworks, a ban on out-of-town retail development. Easing the cumulative impact would give retailers much needed breathing space and allow them to focus on the mission critical tasks, while allowing Ministers to do likewise
- Minimise regulatory divergence with other parts of the UK when policy objectives are similar. Divergence can create additional costs and administrative burdens when the focus should be on helping retailers support customers with the cost of living
- Fulfil the commitment in the 2014 Regulatory Reform Act and introduce a Primary Authority system for devolved regulation which would ensure policy is implemented and enforced in a uniform manner across Scotland

USING WINDFALL CONSEQUENTIALS

Any windfall consequentials received from UK Budgets and spending decisions should be used to support consumers, keep down business costs, or fund the revival of our town centres and high streets.

ABOUT 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.

Contact details: David.Lonsdale@brc.org.uk

SCOTTISH RETAIL CONSORTIUM
Box 112, 12 Southbridge, Edinburgh, EH1 1DD
07880 039 743 | info@brc.org.uk | brc.org.uk/src
Scotish Retail Consortium – a company limited by
guarantee Registered in England and Wales No. 405720