Local Government and Communities Committee

Consideration of the Council Tax (Substitution of Proportion) (Scotland) Order 2016

Submission from the Scottish Retail Consortium

INTRODUCTION

1. Retail is an exciting, diverse and dynamic industry undergoing transformational change. The SRC is at the forefront – enhancing, assisting, informing and shaping. Our mission is to make a positive difference to the retail industry and to the customers it serves. Our broad range of stakeholders demonstrates how retailing touches almost every aspect of our culture. The SRC leads the industry and works with our members to shape debates and influence issues and opportunities that will help make that positive difference. We care about the careers of people who work in our industry, the communities retail touches and competitiveness as a fundamental principle of the industry’s success – our 3Cs.

2. In addition to publishing leading indicators on Scottish retail sales, footfall and shop vacancies in town centres, our policy positions are informed by our 255-strong membership and determined by the SRC’s Board.

3. A thriving retail industry is good for jobs, for investment\(^1\), for tax revenues, for keeping down prices for consumers, for communities and even for our pensions\(^2\). 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.

4. However, these are testing times for the industry which is undergoing significant transition. Retail sales have consistently been at a low ebb over the past few years, at a time of profound structural, economic and regulatory change for the industry. Retail is Scotland’s largest private sector employer, employing 13 per cent of the private sector work-force. However, official data published last month highlighted a reduced headcount of 10,000 in the industry over the past seven years, as well as 1,700 fewer shops overall. Responding to these profound changes and becoming more productive will require retailers to invest in: new technology (both software and hardware), a higher skilled workforce, and better logistics capabilities.

5. The SRC welcomes the opportunity to contribute to the Committee’s deliberations. We have previously contributed to the Scottish Government’s consultation on replacing council tax with a local income tax, as well as

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\(^1\) 14 per cent of private sector investment comes from the retail sector e.g. buildings, vehicles, software and hardware

\(^2\) 4 per cent of dividends into pension funds come from the retail industry
providing written and oral evidence to last year’s Commission on Local Tax Reform. We published our latest recommendations on council tax and other local charges in our recent Scottish Budget paper.

6. The retail industry, which directly employs 253,000 people in every part of Scotland, takes great interest in local government finance and household taxation issues for several reasons, including:

- the impact on consumers’ discretionary spending and disposable incomes, given that the existing council tax raises £1.9bn each year;
- retail is a property-intensive industry and contributes a quarter of all annual revenues from non-domestic rates, the other local tax, which has risen to £2.8bn;
- retailers also contribute through charges, fees and levies for local government services (e.g. planning applications, building warrants, alcohol licences) and through compulsory BID levies for other locally determined services;
- local authorities have considerable responsibilities and power which can affect the health of the retail industry e.g. over building standards, land use planning, town centres, regulatory enforcement, parking charges, local discretionary rates relief.

7. We are aware of the long-term budgetary pressures on local authorities, for example supporting an ageing population and maintaining and enhancing infrastructure, the ever rising demands for better services and the constraints on the public purse. Consequently, we recognise the need for local authorities to think differently about how and which services they deliver, how they deploy their resources as efficiently as possible and how to reduce costs and become more productive. For example, has local government truly embraced digital services and the productivity enhancements they offer to the same extent as other sectors such as retail? Thinking differently about the provision of local services can lead to less pressure to increase council tax or charges and levies, and without negatively impacting on the quality of services.

8. As previously recommended by SRC, reducing the number of Rates Assessors from 14 to 1 (in Wales & England there is a single Assessor) should provide greater cost efficiencies as well as greater consistency of service. In addition, delivering on the very welcome commitment (made in the 2014 Regulatory Reform Act and at SRC’s suggestion) to introduce a Primary Authority scheme should reduce local government costs and aid consistency in local regulatory services across Scotland.

9. Next year’s local authority election is likely to herald a greater focus and debate on the scope, size and cost of local government.
KEY MESSAGES

10. The prospects for Scotland’s retailers are ultimately determined by the state of the economy and their own ability to adapt to and seize on the opportunities that arise. That said, retail sales have remained subdued for some time and that brings into sharp focus policies which impact on disposable incomes such as the proposed council tax increases and any changes to Scottish income tax.

11. The level of council tax affects household disposable incomes and the planned reforms to the tax base and tax varying power of local authorities could potentially see up to £170 million added to council tax bills in 2017-18. If the planned changes lead to a more durable and sustainable tax, and doesn’t cause rises in the other main source of local taxation (namely business rates) then that will be encouraging. However, any future tax changes must take into account the impact on consumer spending and we would caution against any subsequent future significant rises which might cast a cloud over what is likely to remain a tentative recovery in consumer confidence.

12. There have been numerous consultations, commissions and reviews looking at local taxation and devolved taxes in the past two or three years in a somewhat piecemeal fashion e.g. LBTT, landfill tax, business rates, council tax and other local taxes. This is in part a reflection of the fact that certain tax powers have been devolved in successive Scotland Acts. However, it does suggest a more holistic and less piecemeal approach is required, and the Committee could usefully press the Scottish Government for a clearer overall strategy on personal and business taxation. At the very least there ought to be a clear road-map setting out the intended tax reforms and likely changes which are likely to impact on individuals and firms over the decade ahead.

ADDITIONAL POINTS

13. In our written submission to last year’s Commission on Local Tax Reform the SRC voiced concern over the shifting balance in the burden of local taxation between personal and business taxpayers over recent years, with business rates escalating year after year in stark contrast to council tax. Since 2007-08 there has been a 50 per cent increase in the tax revenue from business rates compared to a 9 per cent increase in council tax revenues, with businesses disproportionally picking up a greater share of local authority funding. We have deep reservations about this discrepancy, and it remains to

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10 As articulated in the SRC’s Scottish Budget submission ‘Open for Business’, Sep 2016
11 See SRC’s submission to the Commission on Local Tax Reform, June 2015
12 Whilst we remain wholly against repatriation of control over the business rate to councils, we have supported BIDs and the resuscitation of the Business Rates Incentivisation Scheme. We note that business rates have been subject to periodic revaluation, whilst council tax has not.
13 At the same time as business rates have risen firms have also faced higher statutory costs in the form of increases to the minimum wage and for pension contributions, as well as a 25% leap in planning application fees over the past 3 years. Grocery retailers have encountered additional staff training costs to do with new alcohol and tobacco legislation.
be seen whether the proposed council tax reform will ultimately see firms continue to pick up an even greater burden of local taxation.

14. The SRC is encouraged by the recent establishment of the Barclay Review of Business Rates, as fresh thinking on this other important aspect of local taxation is urgently required. Increases in business rates\(^\text{14}\) have been wholly out of step with the other property-based local tax (see graph below), with rates rises tied to an escalator whilst council tax has been frozen. This is not good for investment or job creation and is being compounded by the fact there are new and less expensive routes to market which helps explain the reduction of 1,700 in the number of shops in Scotland over the past seven years. This has implications for the future of our high streets and other retail destinations but also potentially for future tax revenues that fund local government.

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\begin{align*}
\text{Non Domestic Rates} & \quad \text{Council Tax} \\
\hline
2004-05 & \quad 1,800 \quad \quad 1,700 \\
2005-06 & \quad 1,900 \quad \quad 1,800 \\
2006-07 & \quad 2,000 \quad \quad 1,900 \\
2007-08 & \quad 2,100 \quad \quad 2,000 \\
2008-09 & \quad 2,200 \quad \quad 2,100 \\
2009-10 & \quad 2,300 \quad \quad 2,200 \\
2010-11 & \quad 2,400 \quad \quad 2,300 \\
2011-12 & \quad 2,500 \quad \quad 2,400 \\
2012-13 & \quad 2,600 \quad \quad 2,500 \\
2013-14 & \quad 2,700 \quad \quad 2,600 \\
2014-15 & \quad 2,800 \quad \quad 2,700 \\
2015-2016e & \quad 2,900 \quad \quad 2,800 \\
\end{align*}
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15. Scottish Ministers now exert significant influence over take home pay and the amount of money in people’s pockets given their influence over council tax and their control of the income tax rates and thresholds payable by taxpayers’ resident in Scotland.

16. Despite lower prices in shops and a more optimistic outlook for employment, the SRC’s data has shown that this has yet to translate into increased retail sales values in Scotland. Shoppers remain cautious and retail sales lacklustre, with consumers facing rising employee pension contributions over the next couple of years and with the effective devaluation in sterling since the Brexit vote likely to lead in due course to mounting cost pressures for retailers and potentially higher shop prices. 2014 was the first year that wages in Scotland exceeded inflation since 2008 according to a recent SPICe report. We would therefore caution against subsequent changes in council tax which might cast a cloud over what is likely to remain a tentative recovery in consumer confidence, for example if the aim is to achieve a substantial increase in the tax yield.

\(^{14}\) The not-for-profit International Property Tax Institute claims tax on property in the UK as a percentage of all taxation is higher than in other OECD countries, with commercial properties picking up a disproportionate burden.
17. Scotland is an attractive place to live and work and in order for it to remain so we would urge policy makers to think carefully about moves which could lead to those working in Scotland having to pay higher personal taxes than elsewhere in the UK, as this might affect the ability of retailers to retain or attract talent - either on a permanent or temporary basis - especially when compared to other parts of the UK\textsuperscript{15}.

18. The amount consumers have to spend is of course influenced by a wide range of factors including the cost of living which can be affected by broader public policy decisions\textsuperscript{16}. Retailers can and do play their part in keeping down the cost of living for families\textsuperscript{17}.

19. The SRC wants to see effective, efficient and properly funded local government in Scotland. Given the sheer breadth of statutory responsibilities that local authorities face it seems sensible that the bulk of local government funding should continue to come from central government. Hopefully the planned reforms will lead to a durable regime, one that is able to withstand both good and bad economic times, and we note the Government has astutely rejected the Commission on Local Tax Reform’s recommendation of allowing councils to levy local sales taxes.

\textit{Scottish Retail Consortium}

\footnotesize{\textsuperscript{15} The cost of employing people includes employers’ NICs and has risen lately due to the introduction of pensions auto-enrolment and graduated rises in employer contributions as well as changes to the NMW, NLW and Apprenticeship Levy.}
\footnotesize{\textsuperscript{16} For example over housing supply, transport costs and duties and charges (e.g. charges for water and sewerage, carrier bags, deposit return schemes for drinks containers etc).}
\footnotesize{\textsuperscript{17} Retailers are responding to the squeeze on household budgets and strong industry-wide competition with keen prices and promotions, helping to keep down the cost of living. Shop prices have fallen for 3 years, with food inflation near its lowest recorded level.}