SUBMISSION FROM THE SCOTTISH RETAIL CONSORTIUM

Scottish Government Draft Budget 2012/13

About the SRC

1. The Scottish Retail Consortium (SRC) is the lead trade association representing the whole range of retailers in Scotland, from independents through to the large multiples and department stores, selling a wide selection of products through town-centre, out-of-town, rural and online stores.

2. Our evidence focuses only on the proposed supplement from April 2012 on business rates for large retailers selling both tobacco and alcohol.

Background

3. With millions of consumer visits every week, retail is at the heart of Scotland’s communities and has a unique role in delivering products and services to everyone in Scotland. Retail is Scotland’s largest private-sector employer (see Annex A) and an essential motor of the economy and of investment/regeneration. In recent years grocery retailers have also been working increasingly closely with the Scottish Government to help promote and grow sales of Scottish products, not only in Scotland but across the UK and beyond (also in Annex A). However, the sector is now experiencing serious trading challenges. Sales are falling and consumer confidence has recently been weaker in Scotland than in the UK as a whole.

4. Figures from the latest monthly Scottish Retail Sales Monitor show that August’s like-for-like sales were 2.1% lower than a year ago. Total sales reduced by 0.7% - the second worst annual drop in total sales since the Monitor began in 1999.

Retail property and business rates

5. Retail is a highly property-intensive sector. Other non-domestic ratepayers often have a far wider choice of site in which to locate. This option is not open to retailers who require accessible sites for customers. This restricts the market for retail property, raising both property costs and non-domestic rates to significantly higher levels than average.

6. Total business rates in Scotland are around £2.2bn per annum and retailers already pay around one-quarter of that, the highest proportion of any sector. The proposed supplement would only exacerbate the disproportinate nature of the burden which falls on parts of the retail sector. It is clear that the proposal would impose substantial additional costs, running to tens of millions of pounds over the next three years for some of the companies concerned, on top of other general projections for already sizeable increases in business rates liabilities. This comes at the same time as cost pressures on energy, transport and basic commodities.
7. Many retailers have already seen significant uplifts in their business rates liabilities over the last eighteen months. The impact of the 2010 Revaluation, the abolition of transitional relief and the 4.6% increase in the poundage rate in April 2011, to 42.6p, have together significantly increased the financial burden on the retailers concerned. A further inflation-linked increase in the general poundage rate is expected in April 2012, even before the additional impact of the new supplement – all at a time of very difficult trading challenges, as noted above.

8. All larger businesses already pay the poundage supplement of 0.7p to help fund the Small Business Bonus Scheme. In some areas retailers also pay a Business Improvement District supplement.

**Purpose of the new proposal**

9. The retail supplement is presented as a public health levy. No objective evidence has yet been given to support this description. It appears more to be a tax raid targeted specifically at a handful of companies which the Scottish Government believes can afford to pay it. There is no precedent for introducing such an element into the system of business rates which are by definition allocated to general funding of local authorities.

10. It is stated that the estimated income raised from the supplement will contribute to preventative health spending measures to be taken forward jointly by local authorities and their partners in the NHS, Scottish Government and third sector. It is understood that these will relate to health and social problems associated with alcohol and tobacco use. Further details have yet to be made available in relation to the purpose of the proposal and whether the money will be ring-fenced. It is surprising that for a measure that is presented as a public health levy, no evidence has been led on the impact it will have on (a) the price and (b) sales and consumption of alcohol and tobacco; and on (c) improvement to public health and reduced costs to society.

11. If this is a health levy related to alcohol and tobacco sales, we are extremely surprised and concerned at the decision to target a single part of a single sector – largely the major supermarkets – for the purposes identified. In addition, the previous minority SNP Government oversaw the passage into the Alcohol etc (Scotland) Act 2010 of powers to introduce a social responsibility levy on all licensed sellers of alcohol. Whilst the retail sector had concerns about that measure as well, it is unclear how the new levy relates to that one.

12. Large retailers represent only a proportion of the alcohol and tobacco markets. Again no evidence has been presented on what percentage of alcohol and tobacco sales will be taxed and what percentage will not. Supermarkets take the responsible retailing of alcohol, tobacco and all other lines extremely seriously. They have led industry in working in close
partnership with Government towards achieving this aim and in supporting associated health objectives. They contribute substantial sums towards the funding of DrinkAware, pioneered the prevention of under-age sales through the Challenge 25 initiative and have led the way on clear alcohol labelling. Over many years they have led industry in their nutritional initiatives and their commitment to help consumers to make healthier and balanced choices in the food they buy. As recently as July, the SRC and major retailers announced, to wide acclaim, a major new commitment to support greater consumption of fruit and vegetables. It makes no sense to target this supplementary levy on the retail businesses concerned.

13. The supplement is effectively a revenue-raising raid on large supermarkets, in the guise of a public health measure. A true health measure would be properly evidence-based, would not discriminate in this arbitrary way, and the revenue would be ring-fenced for health purposes.

14. All alcohol and tobacco sales are already subject to a special tax – excise duty. In 2010/11, alcohol duties raised £9.5bn for the Exchequer and tobacco duties £9.3bn (with VAT on those sales providing further revenue).

Scope of the proposal

15. We are extremely frustrated about the lack of consultation about the proposal and the associated lack of detail on how the new supplement will be introduced. The Scottish Government has acknowledged repeatedly the important role that retailers play in the Scottish economy and the contribution that they make to society through recruitment, investment and support for Scottish suppliers.

16. New forms of taxation and their implementation are always complex. The Scottish Government has previously supported full consultation prior to the introduction of new taxation, to give certainty and confidence to the businesses affected. There is dismay that a new tax of such magnitude and with such far-reaching implications for a world-class sector could be announced in the new Scottish Government’s first Budget without any mention in the manifesto. There were other clear indications, including the Finance Secretary’s answer to a Parliamentary Question in June, that there were no plans to revive a large retailer levy.

17. Initial reports suggest that the levy will apply to between 200-250 stores selling both alcohol and tobacco and having a rateable value in excess of £300,000. This threshold appears arbitrary and not evidence-based. It is understood that the levy will be used to raise around £110 million over three years – £30 million in 2012/13 and £40 million in each of the two subsequent years.

18. Work on analysing the financial impact of the proposals is ongoing and is hampered by the lack of details from the Scottish Government, but initial calculations suggest an average supplement of around £130,000 per store in
2012/13, adding over 22% extra to already rising rates bills in the first year of the levy; rising to more than £170,000 per store by 2014/15. Even without the supplement, it is estimated that the affected retailers would be paying more than £130m in Scottish business rates in 2012/13.

19. Ministers have been quoted as saying that the levy only equates to 0.1% of retail turnover in Scotland. However that refers to the turnover of all retailers and so is not a relevant figure. The UK supermarket sector is recognised as one of the most highly competitive in the world and operates on extremely low margins relative to other businesses, bringing massive benefits to consumers and to the wider economy. If we suppose that margins in affected retailers are in the region of 3-5% - say 4% - then to pay the cost of a levy at £40m per year as proposed in 2013/14 and 2014/15, those retailers would need to make additional sales of £1bn, net of VAT.

20. Given these margins, the levy clearly makes very significant additional inroads into the profits of individual stores, and it is profit which drives investors, not turnover, and an impact of this order will influence investment decisions. The levy sends completely the wrong message to retailers considering investment in Scotland, that the nation is a less competitive location to invest and even that their operations are not particularly welcome here.

Impact of the proposal

21. We have yet to see a detailed Business and Regulatory Impact Assessment setting out the impact of the proposal on both investment and jobs. For any taxation proposal of this magnitude, it would be unthinkable for no impact assessment to be produced to ensure transparency of consideration.

22. Notwithstanding our broader concerns in relation to the business rates system, the system of five-yearly revaluations and a centrally set poundage rate provides retailers with some degree of cost certainty despite its flaws. The Scottish Government’s decision to announce the measure without any form of consultation is particularly unwelcome. The companies concerned have been given extremely limited notice of the proposed levy. They are well advanced with setting and finalising their own property budgets for the coming financial year.

23. It is also clear that the proposal is inequitable. Business rates are a tax on the occupation and use of property. Objectively nothing has changed in relation to the use of retail properties which would warrant the imposition of this levy on the retail properties concerned.

24. Targeting a single part of a single sector inevitably sends out the wrong signals to existing and potential investors. Applying this levy on large retailers is short-sighted and counter-productive. This is particularly the case when private-sector investment and job creation must play a central role in the economic recovery. Such actions can only undermine the Scottish
Government’s stated aim of ensuring that the country is the “most attractive place for doing business in Europe”.

25. Furthermore, in the medium term, there is clearly a risk that such exceptional increases may lead retailers and other businesses to look less favourably on investment in Scotland. Additional property costs could weaken the competitive position of locations in Scotland due to the property-intensive nature of the retail sector. With retail-led development a central element of the strategy to regenerate key parts of the country, such an outcome would clearly be undesirable.

Conclusion

26. The SRC continues strongly to support the Scottish Government in its efforts to drive economic growth. It is in the interests of all concerned that the country emerges from the economic downturn in as strong a position as possible to compete in a global market. To achieve this aim, it is essential that private-sector growth is not impaired and that the broader perception of Scotland remains as a competitive location to do business. We urge the Scottish Government to reconsider its proposal to introduce this supplement on business rates.

27. We trust that the Committee will give careful consideration to the issues raised in this submission. The SRC would be pleased to provide additional information in any relevant area.

Scottish Retail Consortium
3 October 2011
Annex A

Retail employment

- The retail sector plays a vital role in maintaining and creating employment in Scotland and is its largest private-sector employer. Around 239,000 jobs, or 9% of the Scottish workforce (more than tourism), are in retail. Against the backdrop of continued economic difficulties, it is essential that the business environment actively supports job creation and investment. Additional costs, such as those proposed in this levy, impede and undermine that contribution.

- It is also important to recognise the range of opportunities offered. Retail provides high-quality jobs for people from a very diverse range of backgrounds in the broadest range of geographical locations of any sector. The sector thus makes a concrete contribution to providing employment in some of the most deprived communities. A career in retail provides opportunities to develop transferable skills such as buying, marketing, customer service, management and many technical disciplines.

- Retail also contributes significantly to tackling youth unemployment. There were recently estimated to be 88,000 Scottish retail workers aged under 25. Of these, 49% had their highest qualification at SVQ Level 3. Only 4% had no qualifications.

- At UK level, more than 4 out of 10 new employees taken on by the retail sector in the last 12 months have been aged between 16 and 21, according to new figures from the British Retail Consortium (BRC). A survey of BRC members responsible for more than 1m retail jobs found 42 per cent of new starters were aged 21 or younger, which equates to at least 13,500 jobs for this age group. Retailing was found to provide 42% of 16-to-17-year olds in employment with a job. Similarly, it provides 40% of employment for 18-to-19-year-olds and 25% for 20-to-24 year olds.

- Across the UK, retailers invest an average of £1,275 per employee in training each year. Retailers account for over 12 per cent of the UK's total training spend. The £1,275 figure compares with just over £800 for staff in the financial sector and £1200 for those in manufacturing.

Partnership working via the Scottish Grocery Retailers’ Forum

- Over the last 3 years, the Scottish Grocery Retailers’ Forum has evolved into an important plank of the Scottish Government’s Food & Drink Policy.

- By closer working between retailers and the Scottish Government and organisations such as Scotland Food & Drink, it has gradually been realised
what can be achieved and what doors can be opened through such partnerships.

- The areas of engagement were set out in the following commitments by major retailers in 2009:
  1. We will work in partnership with Scotland's food and drink producers and suppliers, and play our role in ensuring food security for Scotland's people.
  2. We will work with Scotland Food and Drink and our supply chain partners to ensure there is appropriate information for consumers to help them choose Scottish products.
  3. We will provide customers with clear information and a range of products to enable them to choose an affordable, healthy diet; and will promote food and alcohol responsibly.
  4. We will meet consumer demand to ensure foods that have been produced in compliance with high animal welfare and environmental standards.
  5. We will help Scotland reduce its environmental impact, by contributing to meeting its climate change targets and moving towards a zero waste society, including reducing and managing food waste.

- There have been significant increases in sales and choice of Scottish products, and some excellent initiatives have developed on local sourcing and helping Scottish producers/processors to grow and to understand how to succeed in the Scottish, UK and international grocery markets.

- SRC and its members were looking forward to building on this work with the Scottish Government and Parliament. The punitive levy announcement undermines the enthusiasm and dynamism of all those retailers and individuals involved, and is the opposite of partnership working.