Scrutiny of the Draft Budget 2012-13 and Spending Review 2011

Scottish Retail Consortium

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. The Government has indicated this supplement is to raise funds for preventative health measures, which is why the supplement is of direct relevance to the Health and Sport Committee.

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 and regeneration.

4. Retail as a whole is one of the few sectors that has continued to invest in Scotland during the past few years of economic uncertainty. This investment has created jobs, helped revive struggling communities and ensured that competition keeps prices affordable and choice available to the millions of customers they serve each week.

5. The supermarket sector in Scotland plays a vital role in all communities across the country. As consumers struggle with an uncertain jobs market, rising prices for essential commodities such as energy and fuel, pay freezes and reduced public services, supermarkets have worked hard to keep prices in their stores affordable. They have passed on little of the cost increases they are facing, they have worked hard to ensure a range of products are on promotion each and every day, and consequently consumers continue to have access to a wide range of products and services. They have continued to invest in the sale of Scottish products, working hard with suppliers to support local food producers and bring their goods to market. They have worked to make their food healthier, reformulating where possible and offering clear nutritional advice to customers through a number of routes. They have worked closely with the Government to support initiatives such as the Obesity Route Map, the Retailers’ Forum and the Retailers’ Charter (see Annex B).
6. However, despite this approach, the Government has singled out the sector and has announced plans to introduce a supplement to the business rates of those stores above £300k rateable value that sell both alcohol and tobacco. The justification for this is to raise funds for preventative health measures. However, so far, there is little evidence or logic to support this description.

7. Retailers already face a considerable amount of legislation that governs how alcohol and tobacco is sold. For example, the Licensing (Scotland) Act 2005 dictates where alcohol is sold in store, the Alcohol etc (Scotland) Act 2010 has brought in a ban on multibuys and promotional material and the ban on the display of tobacco is expected to be implemented next year. The SRC would encourage the Government to monitor the effect of these measures on the industry and consumer behaviour before rushing to introduce further legislation relating to the sale of these products.

8. The SRC believes the Health and Sport Committee should scrutinise the Government’s proposal for a public health levy on supermarkets. We believe there are a number of questions that remain unanswered. We are not convinced the money will be used to fund preventative health measures as has been stated and we think the Committee should challenge the Government’s proposal and consider carefully whether this levy will truly tackle the health problems facing Scotland.

Purpose of the new proposal

9. The retail supplement is presented as a public health levy. However, it is only targeted at seven companies that sell alcohol and tobacco. The levy will not be applied to businesses in the supply chain that make these products and nor will it be applied to those only selling one of those products, even where the overwhelming majority of profits come from the production or sale of those goods. It is clear that there is no intention to discourage the production or sale, or to influence the price, of tobacco and alcohol and consequently, there is no intention to influence consumer behaviour through the impact of this measure on price. The Committee may what to ask what the Government’s justification is for introducing a public health levy that only affects a small handful of business involved in this industry.

10. The Government has confirmed that the measure is designed to raise money, not as an incentive for retailers to consider whether or not they should continue to sell both alcohol and tobacco. This seems at odds with the very idea of preventative health measures which surely, if successful, are meant to reduce the number of people taking up or maintaining a habit such as smoking or drinking in an irresponsible way, which can lead to health harms. If demand for products falls, it is logical that a retailers would consider the viability of continued supply of the products in question.
11. The Scottish Government has previously underlined the importance of evidence-based policy making and cites the econometric modelling undertaken by Sheffield University to support its policy on minimum pricing. However, no modelling has been done on the impact of the public health supplement. Likewise, the Scottish Government has not provided any health policy justification for the setting of the threshold above which supermarkets will have to pay this levy at £300k Rateable Value.

12. So far, the Government has not provided any analysis of the proportion of alcohol or tobacco sales in Scotland that are made through the affected premises. Industry data suggests that it is a small proportion of the alcohol and tobacco consumed in Scotland. The Scottish Government should provide a clear analysis of the alcohol and tobacco market in Scotland.

13. 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. However, so far little detail has been offered regarding what these measures will be.

14. Discussions with the Government have indicated that projects that will benefit from this money are yet to emerge. However one project that has been identified, the Government’s Change Fund, whilst important, is not associated with preventative care. It is misleading to impose a new tax on businesses for one stated purpose, without clear plans demonstrating how this purpose will be achieved.

15. The SRC recognises that a move to preventative health policy is an important and valid direction for the Government to consider. However, we believe that there is currently a wider misunderstanding among health groups as to how the funds raised by a levy on retailers selling both alcohol and tobacco will be used. There is no evidence to suggest that this money will be directly used to prevent or reduce alcohol and tobacco related harm. While other preventative health measures will have merit, the money, as it stands, does not appear to be targeted at tackling the specific issues around alcohol and tobacco use.

16. Likewise, there is currently little detail on the additionality this money will bring. The new supplement is expected to raise £110 million of the £500 million being made available for preventative health measures however, so far, we have seen little evidence that it will fund new services, treatments or other measures not already in operation. This money is not ring-fenced, which makes it difficult to see how the Government can guarantee it is spent on new preventative health measures. It is simply not enough for the Government to state its intention; without firm commitment and detail regarding how the money will be used, what new measures it will bring about and the differences
it is designed to achieve, there is a danger the money could disappear into other areas.

17. Furthermore, despite this tax applying to those companies selling alcohol and tobacco, no evidence has been published 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.

18. It has not been made clear how the Government decided that £110m should be raised from this levy. Without evidence, it looks like an arbitrary amount that has no specific purpose or objective associated with it and suggests the public health justification for this levy is spurious at best.

19. 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. This raises significant questions regarding how the Government can use this money to fund national projects. The funding of preventative health measures should surely come from central Government, which has responsibility for health policy. Local authorities, for which non domestic rates are an important funding mechanism, do not have responsibility for health, so how can this money be allocated to them for health purposes? This is likely to cause problems when this money is allocated.

20. As the Committee will be aware, 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. The Government has stated that the economic conditions are not right currently to introduce the social responsibility levy. Why then are they right to introduce this levy on supermarkets?

Supermarkets and public health

21. Retailers themselves are committed to both the responsible sale of alcohol and tobacco as well as investment in health measures more generally. Below are a small number of examples of the work supermarkets do in this area. They demonstrate retailers’ agreement with the Government that investment of this sort is important. The SRC does not oppose this business rate supplement because we believe it is not right to invest money in this area; we oppose it because it is discriminatory, lacks an evidence base, will not achieve its objectives and ignores the level of investment supermarkets devote to health concerns.

22. Supermarkets recognise that, whilst alcohol and tobacco are legal products, it is vital that the sale of both is undertaken in a responsible
manner. Supermarkets invest considerable time, money and effort in ensuring staff are trained and appropriate procedures are in place to uphold the law. However, in many cases, supermarkets and other SRC members go well beyond what is required legally and they have led the way in setting high industry standards for the responsible sale of alcohol and tobacco.

23. Retailers pioneered the ‘Challenge 21’ and ‘Challenge 25’ approach to underage sales that is now in use across Scotland. Young people expect to be challenged about their age when attempting to purchase these products from our stores and a cultural shift has been achieved as retailers and other vendors adopted this strict and easy-to-understand policy.

24. Retailers are key contributors to DrinkAware, the leading charity involved in communicating safe messages regarding alcohol consumption. DrinkAware receives approximately £5.2 million per year from retailers, producers and pub companies to undertake its campaigns and projects with schools and community groups. Evidence suggests DrinkAware is a trusted source of information regarding alcohol.

25. Retailers were also the first part of the industry to commit to labelling its alcohol products with information regarding alcohol units. The inclusion of both the number of units per serving and per bottle/can, and the recommended limits, plays a vital part in increasing awareness of the safe levels of consumption. An increase in awareness of drinking habits is essential in driving a cultural change throughout Scotland.

26. The retail sector, via the SRC, SGF and WSTA, is a key partner in the Scottish Government & Alcohol Industry Partnership (SGAIP). The partnership has been in operation since 2007 and its aims are to promote responsible drinking, retailing, advertising and promotion and to reduce alcohol related harm in Scotland. The Government, as a member of this partnership, has clearly valued this approach to reducing health harms in Scotland through initiatives such as Alcohol Awareness Week, and the Fife alcohol partnership. It is disappointing, therefore, that the Government has proposed the levy on supermarkets, with no consultation or discussion with the sector involved, given the constructive relationship suggested by this partnership.

27. In addition to this work on alcohol and tobacco, the supermarket sector has been committed to public health policy across Scotland and throughout the UK for a number of years. Retailers are active in numerous measures designed to improve the health of their customers, both in encouraging lifestyle change as well as by making products on sale more nutritious and affordable.
28. In July 2011 the SRC, together with the Scottish Government, announced a fruit and veg pledge, as part of the Government’s Obesity Route Map (see Annex C). The pledge commits retailers to encouraging the consumption of fruit and vegetables using a menu of options, including: increasing the proportions of vegetables in ready meals; promoting the ‘5 a day’ message; and providing advice on how to cook fruit and vegetables. The Government praised this commitment and recognised the difference it could make. The SRC is therefore disappointed that the Government has introduced this tax supplement on the very businesses that have committed to such beneficial activity.

29. The grocery sector was also the first to introduce nutritional labelling, first on the back of products but now increasingly on the front of packs, using GDAs, traffic lights, or a combination of the two. All members have reported this making a difference in customers’ purchasing decisions and it is clear therefore that this type of labelling can be a useful tool in halting Scotland’s obesity crisis.

30. The reformulation of food products has also long been a key policy for supermarkets. Retailers voluntarily removed artificial trans fats from own brand foods several years ago and all members have removed salt, fat and sugar from thousands of products. Much of this work is explained in detail in the two BRC (the SRC’s parent company) documents available at the following link. www.brc.org.uk/acommmitmenttohealth

31. Earlier this year, retailers, together with the manufacturing industry, recognised that much of the more straightforward work in salt reformulation had already been achieved. However, instead of declaring this work was, largely complete, companies have agreed to fund a research project to identify possible technological advancements that could mean further salt reformulation can be achieved. This demonstrates that retailers’ commitment to health is not just associated with a few healthier products or easy-to-achieve modifications; they genuinely believe this is the right thing to do.

32. These few examples highlight how much can be achieved by the supermarkets in public health policy. They also demonstrate the value of partnership working with industry. We do not understand, therefore, why instead of concentrating on encouraging the industry to go further with this work, the Government has instead decided to impose a supplement on retail properties. This tax represents an average 22% increase in the rates bill for the stores affected. However, it also suggests to the companies at a national level that their investment in public health is not valued; instead the Government would prefer to tax businesses and, without publishing any detail, suggest this will pay for preventative health projects. We would urge the Committee to request the evidence that this will lead to successful preventative health outcomes.
33. The supplement also suggests that the Government is moving away from a partnership approach aimed at tackling public health issues to centrally-funded projects where the responsibility for delivery rests with the Government. The Committee may wish to press the Government on this major shift in policy delivery and ask Ministers whether they are confident this approach will achieve their policy goals.

34. 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.

35. 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).

Conclusion

36. The SRC believes that the proposed levy on supermarkets is nothing more than a tax raid on supermarkets and has little to do with raising money for preventative health spending. If this was not the case, it would not be discriminatory, the money would be ring-fenced and there would be publicly-available evidence to justify the amount to be raised and the way in which it has been calculated. The Government would also be willing to undertake a Business and Regulatory Impact Assessment to understand the relative costs and benefits.

37. The proposed levy focuses too much on one end of the supply chain. The average supermarket sells approximately 30,000 products, of which tobacco and alcohol is a small part. However, there are many companies whose businesses solely produce/sell alcohol and tobacco. This anomaly suggests this levy is ill-thought through and untargeted.

38. The SRC believes the Health and Sport Committee should scrutinise carefully the Government’s proposal in a bid to satisfy itself that this policy will truly make a difference, is evidence-based and the public health argument has been carefully considered and thought through. It is the SRC’s opinion that significant questions remain unanswered regarding how this measure will fund public health projects, whether the money will be spent, on further preventative health measures or just contribute to existing spend and how it can be guaranteed to do so without being ring-fenced.

39. Retailers are strong supporters of measures designed to improve public health and themselves invest considerable time and money to this end. We are not convinced that that Government’s new approach
as demonstrated by this proposal will be more successful than working in partnership with the industry and we advise the Committee to question the logic of this levy and its stated objective. We urge the Scottish Government to reconsider its proposal to introduce this supplement on business rates.

40. 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.

Alison Gardiner
Scottish Retail Consortium
18 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.

Annex B - 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:
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.

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.

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.

We will meet consumer demand to ensure foods that have been produced in compliance with high animal welfare and environmental standards.

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.

Annex C - Retailers encourage Fruit and Vegetable consumption: support for Scottish Government Obesity Route Map

The retail sector in Scotland is committed to helping the Scottish Government take forward its Obesity Route Map. As part of this, eight of the biggest food retailers operating in Scotland have agreed to ‘create the right retail environment to enable and encourage people to increase their consumption of fruit and vegetables’.

This commitment will be delivered through a menu of options outlined below. These options will be selected and reported on by the retailers involved. The options reflect the diversity of the food retailing sector in Scotland, the range of products that contribute towards assisting consumers in achieving Government recommendations for the consumption of fruit and vegetables and the different demographics and shopping habits of consumers across the country.

Fruit and Vegetable Commitment - Options Menu

- Action to make fruit and vegetables more affordable e.g. promotions, value ranges, pricing
• Promoting fruit and vegetables, including those in the frozen aisle, more prominently

• Placement of fruit and vegetables to support impulse purchases

• Ensuring product is available to support the Healthy Start scheme

• Ensuring availability of fruit and vegetables in the workplace - in canteens, meetings, vending machines including, for example, serving extra portions as part of the meal

• Ensuring availability of fruit and vegetables in convenience stores

• Including fruit and vegetable choices on menus

• Reformulating products to increase the content of fruit and vegetables, e.g. ready meals; sharing/mentoring with smaller companies

• Choosing to stock products with greater fruit and vegetable content

• Ensuring meals served out of the home contain/include fruit and vegetables in meaningful quantities

• Ensuring a range of “ready to cook” and pre-prepared vegetables are available in retail settings

• Developing new fruit and vegetable-based products

• Promoting the 5 a day message on pack, including for composite foods

• Developing targeted and personalised advice on increasing fruit and vegetable consumption (e.g. using websites, till receipts, customer mailings)

• Providing advice on how to cook fruit and vegetables and how to incorporate them into meals

• Promoting the 5 a day message in store and in communications covering fresh, frozen and reformulated products

• Sharing and promoting best practice for whole category marketing campaigns

*Retailers will monitor this activity and will report on progress annually