OPEN FOR BUSINESS:

GROWING A MORE PRODUCTIVE AND COMPETITIVE SCOTTISH ECONOMY

RETAIL INDUSTRY RECOMMENDATIONS TO THE SCOTTISH GOVERNMENT FOR ITS BUDGET & SPENDING REVIEW
Retail is a dynamic industry and accounted for 13% of all new businesses formed in Scotland last year.

253,000 retail jobs in Scotland

Retail contributes 5.5% of Scottish GVA.

Retail sales total: £26bn = 20% of Scottish GDP.

25% in Scotland, retail accounts for a quarter of all business rates.

www.scottishretail.org.uk
DEAR FINANCE SECRETARY,

A thriving and successful retail industry is a great route to better paid jobs, more private sector investment, and additional tax revenues for the public sector. It also keeps down prices for families, supports communities and helps everyone saving for their pension.

The industry is crucial to supporting Scottish businesses, with billions of pounds of Scottish products exported by retailers every year to the rest of the UK and beyond. Just as importantly the industry provides a key market for many other suppliers, from logistics companies moving products to electricians and plasterers resolving issues in stores. The multiplier effect of retail on the Scottish economy is measured in billions.

The industry is one of the most dynamic and innovative, accounting for 13% of all new firms formed last year. This innovation can be seen through significant new investment in store formats and layouts including online, in-store technology and order points, home delivery and logistics capabilities, click and collect services, digital customer loyalty and payment arrangements, and new and refreshed own-brand products. The industry is in the midst of a customer led revolution, and all of its investment - from new ways of working to sharpening prices – is because customers are changing and demanding it.

However, these are testing times for the industry. Retail sales growth has consistently been at a low ebb over the past few years. Retailers are working ever harder to maintain sales, let alone grow them, at a time of profound structural, economic and regulatory change for the industry. Retail is currently Scotland’s largest private sector employer, employing 253,000 people; 13 per cent of the private sector work-force. However recent data highlights that there were 3,500 fewer jobs in the industry last year. Embracing these changes and becoming more productive requires retailers to invest in new technology (both software and hardware), a higher skilled workforce, revamped warehouses and stores and transformed logistics capabilities.

Responses to this profound change have to be made against a backdrop of weak sales, shop price deflation, rising government-imposed costs and increasingly small margins. It is in this context of enormous challenge and transition that the cumulative burden of government-imposed costs has become an acute issue. Over and above the year-on-year non-domestic rates escalator, this cumulative burden is seeing retailers grapple with the implications of regulatory costs including the National Living Wage, the new Apprenticeship Levy, rising statutory increases in employer pension contributions, as well as for staff training in response to legislative developments e.g. in alcohol and tobacco legislation. The consequence of this is accelerating the process of change within retailers. It is also altering the attractiveness of investment options, as labour and property costs rise more quickly compared to falling technology costs and greater digital capability.

The changes affecting retail will have profound implications too for devolved public policy, particularly for employment prospects in communities more reliant on retail jobs, for the health of our town centres and for future revenues from taxes such as business rates.

Your Budget & Spending Review will no doubt herald a meaningful debate over the size and scope of the State and the role of government. However, for retailers it provides a great opportunity to further assist the industry to be more productive, stimulate investment and bolster consumer sentiment, especially in light of the Brexit vote and its potential short term implications for consumer and business confidence. I therefore commend the following recommendations to you as you determine your tax and spending plans.

Yours sincerely,

DAVID LONSDALE
Director, Scottish Retail Consortium

1 14 per cent of private sector investment in the UK comes from the retail sector including investment in buildings, vehicles, software and hardware
2 Independent research shows that the public rate retailers as the top sector for getting involved in their local communities
3 4 per cent of dividends into pension funds come from the retail industry
4 E.g. 20.6% of all non-food retail sales are online
5 ‘Osborne’s changes will cost us £14 billion, high street warns,’ The Times, 2 Nov 2015
EXECUTIVE SUMMARY

Retail is an industry undergoing enormous structural change during a sustained period of weak demand. In that context, expanding government-imposed costs have become an acute issue. The industry was already contending with this challenging backdrop prior to the vote in favour of Britain leaving the European Union.

In light of the Brexit vote there is now an even greater need for the Scottish Government and Parliament as a whole to look afresh at the increased burdens facing retailers and consumers, and take steps to support the industry and promote future growth.

We wholly endorse the ambition for Scotland to become the most competitive part of the UK and believe this Budget & Spending Review provides an excellent opportunity to better support the industry’s potential.

Specifically, Scottish Ministers should:

• Work with the industry to deliver a retail strategy which sets out a clear road-map for future tax and regulatory changes for the decade ahead
• Bolster consumer confidence by keeping a firm grip on personal tax rates, and re-evaluate whether the current plans for increases in personal taxation in 2017-18 remain sensible
• Press ahead with fundamental reform of business rates so that a modernised, sustainable, strategically coherent and competitive rates system can be in place shortly after the Barclay Review reports
• Scrap the £62.4 million annual ‘Large Business Rates Surcharge’ which affects 29,000 firms, and restore poundage rate parity with England
• Ensure firms in Scotland which pay the Apprenticeship Levy directly benefit from it
• Shelve the mooted Scotland-only deposit return scheme for drinks containers which would push up prices for consumers
RECOMMENDATIONS

The SRC shares the Government’s aim of making Scotland the most competitive part of the UK to do business, however that goal has yet to be achieved. This is why the SRC wants to see a bold and ambitious Budget which uses the flexibilities provided to achieve the competitiveness goal. Our recommendations are:

BREXIT

Retailers and Scotland as a whole benefit from an open, outward looking liberal approach to trade. The intention of the UK Government to involve the Scottish administration in its approach to the Brexit negotiations is sound. In advance of the completion of the Brexit negotiations we would encourage both administrations to draw up an inventory of those existing EU regulatory powers which may be repatriated to the UK and Scottish parliaments and outline the likely approach which will be taken.

The administration ought to build on its positive and welcome message of engagement with business following the Brexit vote by prioritising tangible action on domestic policy. Retailers were already facing a challenging landscape before the Brexit result. The Scottish Government and Parliament as a whole must look closely at the increased burdens facing retailers, and take steps to support the industry and promote growth.

Top of the agenda should be to work with the sector to deliver an industry strategy which sets out a clear road-map for future tax and regulatory changes. Ministers should press ahead with fundamental reform of business rates, scrap the nonsensical £62.4 million annual Large Business Rates Surcharge which affects 29,000 firms, and ensure firms paying the Apprenticeship Levy directly benefit from it. Ministers should aid consumer confidence by keeping a firm grip on personal tax rates and by shelving the mooted Scotland-only deposit return scheme for drinks containers.

RETAIL INDUSTRY STRATEGY

The SRC supports the Government’s aims of achieving sustainable and inclusive economic growth. We have a shared interest in improving the conditions for the industry to thrive and succeed through a competitive, open and attractive business environment. There is a pressing need for a more coherent approach, one where industry and the government as a whole work together and endorses a joint retail strategy which supports and nurtures the growth and success of retail to help it fulfil its potential over the next 10 years.

At the very least there ought to be a clear road-map setting out the intended regulatory and tax changes that are likely to impact on the industry over the decade ahead. An industry strategy or retail road-map could benefit not only retail but its supply chain and the other sectors it touches such as tourism. This strategy needs to be about more than structured and effective dialogue, and ought to become a benchmark against which each proposal for policy and regulation can be tested. The strategy must have the industry’s and government’s shared focus on enhanced productivity and innovation at its heart.

Retail is increasingly recognised as an important sector for stimulating commercial investment and achieving more sustainable and inclusive economic growth. This has been recognised in recent years through the UK Government’s BIS Retail Strategy and UKTI International Action Plan, and also at a European level through the Commission’s Retail Action Plan. The SRC is ready to work with the Scottish Government to develop a joint industry/government retail strategy or retail road-map.

6 Auditor reveals £350 million underspend in Scottish government budget; BBC Scotland News, 3 October 2015
7 For example Scottish retail contributes £2 billion each year from the top 5 direct and indirect taxes -
8 SRC’s Holyrood 2016: Business Rates paper.
9 The recent steps to combat the proliferation of government-inspired voluntary regulation are an encouraging sign
VALUE ADDED TAX (VAT)

Half of the tax receipts from VAT are being assigned to the Scottish Government as a result of the Scotland Act 2016, and so the administration has a direct interest in nurturing higher levels of receipts from this tax as it will directly benefit government revenues.

Few better opportunities exist than encouraging and facilitating a flourishing retail industry. Retailers will be keeping a close eye on the future of VAT as the Brexit negotiations take place. While control of VAT is currently a reserved matter, EU restrictions on this may presumably no longer be relevant. It is important that the best interests of the economy are considered before any decision on devolution in this area.

BUSINESS RATES

According to the OECD commercial property takes here are the highest in the OECD. The SRC has previously highlighted that retailers are keen to see fundamental reform of Scotland’s £2.8 billion annual business rates system in order to support investment, business growth and revive our high streets, where 1 out of every 10 premises is vacant. We are pleased the government heeded our calls and that the Rates Review led by Ken Barclay is now underway. The Rates Review must recast business rates for the decades ahead and deliver a system which is modern, sustainable and competitive.

A fundamentally reformed rates system which flexes with economic and trading conditions and leads to a substantially lower tax burden would increase retailers’ confidence about investing in new and refurbished shop premises and help revive high streets and town centres. At the heart of this agenda should be a medium-term plan to substantially lower the rates burden; much as the Government has pledged on Air Passenger Duty.

Before the Barclay Review reports next summer, there are a number of shorter term measures which Ministers should pursue. Top of the list should be restoring poundage rate parity with England for medium sized and larger firms by scrapping the £62.4 million annual rates surcharge introduced for 2016-17, which affects 1 in every 8 firms. It is far from clear why firms operating in Scotland should pay more in rates than firms in comparable premises elsewhere in the UK, particularly when many have options over where to invest elsewhere in the UK or indeed abroad.

Next year’s rise in the headline poundage rate for all other firms should also be shelved. After all, stimulating business investment is more difficult when costs are rising as it means diverting cash and resources away from growing the business.

The SRC supports the principle behind the new local discretionary rates relief in the interim period prior to fundamental rates reform. It is a welcome acknowledgement of the need to keep down costs for business. However, we remain to be convinced that its use by councils will either be widespread or substantive enough to be effective.

9 Commercial property tax in the UK are the highest in OECD: https://data.oecd.org/tax/tax-on-property.htm
10 The SRC published ‘Business Rates: Fundamental Reform’ in February 2015 and ‘Holyrood 2016: Business Rates’ in August 2015. The February publication included independent research showing 69% of MSPs agreed business rates are in need of reform.
11 Up from £2.07 billion in 2010-11
12 ‘Scottish Government to collect £62.4 million after doubling of rate’, The Herald, 28 June 2016
13 ‘Councils fail to take up rates burden powers’, Scotland on Sunday, 26 June 2016
Scottish Ministers now exert significant influence over take home pay and the amount of money in people’s pockets given their control of the income tax rates and thresholds payable by taxpayers resident in Scotland. In 2017-18 this is expected to generate almost £11 billion of revenues. The retail industry takes a great interest in personal taxation issues. This is due to the potential impact on customers’ disposable incomes and discretionary spending, the potential effect on employees and on retailers’ administrative systems, and because of the potential knock on implications for other taxes.

The SRC has previously voiced concern over the shifting balance in the burden of local taxation between personal and business taxpayers over recent years, with business rates escalating in stark contrast to council tax. We would be concerned if a similar approach was adopted more widely in the context of personal taxes if it led to business taxes on firms having to pick up an even greater burden of taxation.

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 in Scotland. Shoppers remain cautious and retail sales lacklustre. We would therefore caution against changes in the tax rate or bands 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.

Scotland is an attractive place to live and work and in order for it to remain so we would urge Ministers to think twice about moves which could lead to those working in Scotland having to pay higher 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. Similarly, the Scottish Government has put great store in encouraging employee ownership and should be cognisant of any income tax implications for bonuses etc of employee-owned firms.

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. Retailers can and do play their part in keeping down the cost of living for families.

The SRC believes Scotland’s prospects can be enhanced further by using the tax to positively support the economy and consumer spending. The best outcome for retailers, households and the economy is for income tax rates for the vast majority of Scots to be at least as competitive as they are down south.

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14 According to The Herald ‘SNP will freeze income tax rates ...’ (22 March 2016) the decision not to adopt the same higher income tax rate threshold as in England will net the Scottish administration £120 million in 2017-08
15 The SRC set out positions on personal and business taxation in its June 2014 paper on the Scottish Government’s 2015-16 Budget, and in 2015 in its submissions and oral evidence to the Commission on Local Tax Reform and also to the Finance Committee on SRIT.
16 Income tax receipts in Scotland from retail industry staff totalled £35 million in 2011/12 with a further £351 million from employee and employer national insurance contributions – p11, ‘Scottish Retail: The Economic & Social Contribution’, SRC January 2015
17 See SRC’s submission to the Commission on Local Tax Reform, June 2015
18 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, NIW and Apprenticeship Levy.
19 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).
20 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.
COUNCIL TAX

The level of council tax affects household disposable income 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 reform package leads 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 future significant rises which might cast a cloud over what is likely to remain a tentative recovery in consumer confidence.

NEW DEVOLVED TAXES

As a result of the Scotland Act 2012 the Holyrood Parliament has the ability to levy ‘specified’ devolved taxes of any description. The Scottish Government has thus far wisely avoided using these powers. The retail industry is a significant payer and collector of tax (e.g. VAT or in some cases the duty on the sale of fuel). Before any new taxes are introduced we would wish to see the earliest possible dialogue with industry, and a robust and convincing business case and cost benefit analysis. We would be concerned at any new taxes or levies which might make Scotland a more expensive place to invest or live e.g. workplace parking levy, congestion charging, tourist or additional sales tax.

APPRENTICESHIP LEVY

There is still a dearth of information and clarity over many aspects of the UK Government’s new Apprenticeship Levy, not least how it might apply in Scotland. Indeed, we feel in light of Brexit there is a strong case for pausing its implementation at UK level. Retailers have a strong record on training and career progression, with many providing a wide range of apprenticeships in diverse areas such as logistics, warehousing and food preparation alongside many other accredited or job related qualifications.

We have been encouraged by commitments and willingness from Scottish Ministers to engage with the industry. It is imperative that levy-paying employers in Scotland are not only able to directly access the funds for their broader skills needs but are at the heart of designing how the funds from the levy will be utilised to aid productivity and growth.

LAND & BUILDINGS TRANSACTION TAX

Due to the nature and scalability of the industry, many retailers have a choice over where to buy, rent or invest in retail premises and warehouses in the UK. The rates, bands and thresholds for Land & Buildings Transaction Tax - which came into effect last year - must therefore ensure Scotland’s taxes on purchases of commercial property are competitive.

FEES, CHARGES AND LEVIES

The Scottish Government determines or is highly influential in the setting of a number of fees, charges and levies which are or can be applicable to retailers. These include planning application fees, Business Improvement District levies, charges for alcohol license fees, water and sewerage charges, fees for building warrants and the Carrier Bag Charge. The SRC is keen to see effective, well resourced and consistent regulatory services, underpinned by a clear rationale for variations in charges with commensurate improvements in services and based on timely dialogue with the industry.
DEPOSIT RETURN SCHEME

Scottish retail is amongst the most climate-conscious industries and retailers have taken a lead in reducing the environmental impacts of both their own direct operations and supporting improvements right along their supply chain. The SRC has previously\(^{22}\) outlined its support for a more harmonised local authority recycling scheme and were delighted to see CoSLA work with Government to deliver on this. We remain firmly opposed - along with more than 33 other business groups - to the mooted Scotland-wide deposit return scheme for drinks and other containers.

Such a nation-wide deposit scheme would disproportionately penalise the disadvantaged consumer by pushing up prices, undermine existing kerbside recycling, increase carbon emissions through extra consumer journeys and retailer haulage operations and place significant costs on business.

The equipment required would reduce trading space in shops on our high streets which is incongruous with the Scottish Government’s ambitions to revitalise town centres. Indeed, the projected £86.4 million cost to business estimated in a recent government-commissioned report unfortunately fails to take into account several other cost factors including the loss of trading space, costs of storage, associated installation infrastructure, and staff training.

REGULATION

The SRC has been at the forefront of the debate on better regulation, working through the Scottish Government’s Regulatory Review Group to ensure that there is a regulatory environment that tries to support investment, innovation and economic growth.

With a significant number of retailers operating on a UK and international stage the ease and cost of doing business is a major factor in their decisions of where to invest. Important steps have been taken in recent years such as legislating to allow for the future introduction of Primary Authority which will guarantee greater regulatory consistency across the 32 local authorities, and the Scottish Government’s adoption of SRC proposals to ensure the same rigour is brought to government-inspired voluntary regulation and agreements as is the case with formal, statutory legislation.

We are keen to ensure future regulations take full account of the dramatic structural change occurring in industries like retail. In addition to full implementation early in this Parliament of Primary Authority, and a commitment to ensuring the Scottish scheme is up to date and in line with its UK equivalent, Inception Impact Assessments\(^ {23}\) should be introduced prior to any decision over whether or not to pursue either non-legislative and legislative regulations.

\(^{22}\) See the SRC’s ‘Holyrood 2016: Environment & Sustainability’ policy paper published on 7 October 2015.
\(^{23}\) SRC’s ‘Holyrood 2016: Better Regulation’ document.
Transport is vital to the success of the retail industry. With outlets located in most cities and towns, retailers rely on access to good quality and reliable transport for the daily operation of their businesses – for ease of access for customers, to deliver goods, and to enable employees to reach the workplace.

We fully support the Scottish Government’s plans to dual the A9 and the A96, but would urge a more ambitious timescale for delivery as well as a fully dualled A1. Improved connectivity will help unlock the economic potential of these regions, help get goods swiftly to retail outlets as well as, as is increasingly the case, direct to customers.

Rail is increasingly used to distribute freight for retailers around the country, and changes in customer demand and how people shop is putting a premium on having effective high speed broadband. As a result, any windfall ‘consequentials’ received from UK Budgets should be used for GDP-enhancing infrastructure projects or town centre regeneration which benefit the business environment.

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.

In addition to publishing leading bell-weather 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.
"OUR MISSION IS TO MAKE A POSITIVE DIFFERENCE TO THE RETAIL INDUSTRY AND TO THE CUSTOMERS IT SERVES."