SCOTTISH BUDGET 2025-26

POST-BUDGET SUBMISSION FROM THE SCOTTISH RETAIL CONSORTIUM (SRC)

Economic and trading backdrop

1. The retail industry is proud of its economic and social contribution to Scotland. However, economic growth is weak, retail sales have flatlined for most of the past year, and shopper footfall is underwhelming. Retailers are striving to keep down prices for customers, invest in their businesses, and trade profitably despite spiralling cost pressures.

2. One statutory cost pressure in particular is set to fundamentally alter the outlook. The colossal increase in employers' national insurance contributions will disproportionately impact retail as it is the country's largest private sector employer and because retail employs large numbers of people in entry-level and part-time roles. This will cost Scottish retailers £190 million annually, the equivalent of having to sell an extra £3 billion of goods each year to offset the cost and maintain already slim profit margins.

Scottish Budget - overall reflections

3. This was a better Scottish Budget than the one unveiled in December 2023. It's perhaps no coincidence this latest Budget was also preceded by a welcome step change in engagement with SRC.

4. A number of positives emerged including: the scrapping of the mooted business rate surtax on grocery stores; the freeze to the Basic Property Rate; the dedicated funding to tackle crime against retailers; and no increases in Scottish income tax rates for the remainder of the Parliamentary term. Encouragingly, we've since learned that fair work conditionality won't be applied to business rate reliefs and licenses to trade. All of these decisions reflect recommendations in SRC's Scottish Budget paper[1] published in September.

5. That said, some aspects were less positive. These include the rise in the Intermediate and Higher Property Rates – set to cost shops an extra £7.6 million[2]

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[1] 'Realising the Growth Ambition', Scottish Retail Consortium, September 2024
[2] Press & Journal, 19 December 2024

annually - and the fact smaller stores will miss out on the temporary rates relief which is being made available in Wales and England for the coming year. This means a cohort of both smaller stores and larger shops will pay more in rates than counterparts down south, with the business rate now at a 26-year high.

6. Whilst this was a better Budget than the previous one there weren't any measures to actually reduce the cost of running a retail business in Scotland. As such there is still some way to go to deliver on the new vision of the Scottish Government's Retail Industry Leadership Group ('*Scotland – the best place in the UK to grow a retail business'*) let alone deliver a step change in the country's prospects[3] for economic growth.

Retail crime

7. Crime against retailers has become a scourge of communities across Scotland and soaring levels of shop thefts are the main factor behind abuse and threats towards store workers. Despite record spending by retailers on crime prevention[4], thefts from stores have risen by a quarter over the past year. As such we applaud the dedicated £3 million of funding for Police Scotland[5] towards tackling retail crime and look forward to engaging on how this ought to be deployed. An early priority would be tackling persistent offenders and organised criminal gangs which target retailers.

8. This funding pot however should form the first step in a sustained effort to bring down levels of crime against retailers. Not only do elevated levels of crime harm the skilled and passionate people who work in the industry, it requires substantial investment in prevention measures which could instead have gone on supporting colleagues, store improvements, or keeping down prices for shoppers. Crime and anti-social behaviour also contributes to the decline of Scotland's high streets and town and city centres, negatively impacting customer footfall.

Grocer surtax

9. The confirmation that the mooted business rate surtax on grocery stores is not being progressed is very positive. Such a levy would have pushed these stores' rates bills to the highest in the UK, breached promises on rates competitiveness, and threatened the viability of some stores. The shelving of this surtax lifts a damaging cloud from the investment horizon, not just for retail but for other sectors who were deeply perturbed by the precedent such a surtax would have set[6]. Scottish Ministers deserve praise for clearly listening to our representations and ditching this grocer surtax.

Rates relief for retailers

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[3] The Scottish Fiscal Commission forecasts pretty underwhelming levels of economic growth for the next 5 years.
[4] BRC's Retail Crime Survey
[5] Ministerial response to written parliamentary question from Sharon Dowey MSP - S6W-32008
[6] 16 business groups wrote to the Finance Secretary on 6 February 2024 to voice alarm at the surtax

10. There is disappointment amongst smaller shopkeepers at the omission of any rates relief comparable to that which counterparts in Wales and England are entitled to for the coming year. This is especially so as Barnett Consequentials were forthcoming from UK Government once again to help fund this, as they have been in recent years. Some form of rates relief would help hard-pressed retail destinations and stores here in Scotland at a time when they are grappling with spiralling costs and an uncertain outlook. We note smaller licensed and non-licensed hospitality premises are getting temporary relief, and we fail to understand why shops aren't similarly benefiting when they face many of the same market conditions and cost pressures.

Basic Property rate

11. SRC was in the vanguard of the campaign to secure a freeze to the Basic Property Rate and it's encouraging to see Ministers deliver on this for a second successive year. This will protect modestly-sized stores from rates rises to the tune of £2.3 million[7] in the coming year.

Intermediate and Higher Property Rates

12. A high proportion of retailers operate from medium-sized and larger premises. These shops help underpin the vitality of our town and city centres and account for a large share of retail employment. It's disappointing that the freeze to the Basic Property Rate was not extended to premises liable for the Intermediate Property Rate and the Higher Property Rate. This will mean 4,520 stores will see their poundage rate climb to a 26-year high, the highest since devolution. This will add a further £7.6 million to their annual rates bills, on top of the £31 million added in the current financial year.

13. We note shops liable for the Higher Property Rate will continue to pay a tax rate above that of counterparts in England. This surcharge adds £9.6 million to Scottish retailers' rates bills in the current financial year, and a cumulative £32.8 million[8] over the four years from 2021-25. Indeed, 2025-26 will be the tenth year in a row that retailers - and ratepayers from other sectors - liable for the Higher Property Rate will pay more than firms occupying equivalent premises down south. There is often a symbiotic relationship between small and large stores, relying on each other to thrive and succeed e.g. helping to drive footfall and expanding the range and diversity of what is on offer. This surcharge serves to make it more expensive to operate in our retail destinations and hampers rather than helps investment in the retail eco-system. We remain baffled as to why retailers in Scotland are thought to be better placed to fork out more than similar sized stores in England. Ministers

[7] Ministerial response to written parliamentary question from Michelle Thomson MSP – S6W-32049
[8] Ministerial response to written parliamentary question from Liz Smith MSP – S6W-30147

must stick to their pledge[9] to restore parity with England by the end of this parliamentary term.

Permanent rates reduction for retail

14. In its recent paper[10] on business rates reform the UK Government explicitly recognised the rates burden on retail is disproportionate and that it plans to introduce a permanent business rates reduction for the sector in England, from Spring 2026 onwards. It's encouraging to see this recognition that property-intensive sectors such as retail and hospitality are paying too much, accompanied by a plan to address it. We would like to see such recognition in Scotland along with a permanent cut to business rates for all retailers in Scotland, otherwise we risk being left behind with stores here put at a further competitive disadvantage.

Personal taxation

15. Buoyant household disposable incomes and confident consumers are critical to the health of Scotland's retail industry and all who rely on it. One key determinant of that is personal taxation. Elevated levels of personal taxation can leave pay packets lighter and dent shopper spending. We were relieved there were no further increases to Scotland's six rates of income tax. This should support consumer spending. The impact of the rescinding of the council tax freeze, without any accompanying cap, remains to be seen especially on household finances and spending.

16. However, Scotland's elevated income tax rates for higher earners do make it more expensive for retailers to hire and attract specialist and senior staff from elsewhere in the UK, with firms telling us they often have to pay a premium to secure talent to come and work here.

Regulation

17. Following SRC's representations, the Scottish Government has now opted not to proceed with making eligibility for licences to trade and business rate reliefs conditional on payment of the 'real' living wage. Retailers in Scotland are grappling with a number of complex and costly devolved regulatory initiatives as well as higher taxation, so this decision is both welcome and sensible as it could have threatened firms' ability to operate and impacted operating costs.

Additional local taxes

18. The new Tax Strategy, published alongside the Scottish Budget, says Ministers will explore with local authorities the creation of more revenue generating powers, as well as "wealth taxation". This sounds somewhat ominous. Therefore early clarity

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[9] SNP manifesto and Scottish Government's Framework for Tax
[10] Transforming Business Rates, UK Government, October 2024

over the areas to be looked at would be helpful. Councils have been handed control over a swathe of taxes and levies of late e.g. workplace parking levies, tourism visitor levies, the ability to charge higher council tax on second homes, LEZ charges etc. Other levies are being handed to councils e.g. a cruise ships tax and possible carbon land tax.

19. A kaleidoscope of differing local taxes can add complexity and cost to the running of a retail business and impinge on customers' disposable incomes. Before any further tax devolution to councils which might affect retailers and consumer spending is considered, we would wish to see the earliest possible dialogue with industry and a clear understanding of the impact on firms or consumers.

Cost of government

20. We note the Scottish Government is to hold a Spending Review in 2025. It matters profoundly that devolved public finances are on a sustainable footing as this militates against the need for tax rises on individuals or firms would stymie economic growth. We've previously outlined suggestions[11] for cutting the cost of running the devolved government including rationalising the number of devolved public bodies, disposing of surplus premises, reducing headcount, scrapping the no compulsory redundancies policy, and progressing fewer regulatory initiatives.

Conclusion

21. We hope Ministers and MSPs from across the political spectrum can work collegiately to pass a pro-business Scottish Budget which avoids adding unwarranted costs onto business and supports economic growth. Any failure to pass a Budget in good time would add a thick layer of uncertainty at an already challenging time for retail. Whilst this Budget is far from perfect, we believe the benefit of certainty for businesses outweighs the negatives outlined above.

Scottish Retail Consortium
December 2024

[11] SRC's Scottish Budget recommendations paper