REALISING THE GROWTH AMBITION

Retail industry recommendations for the 2025-26 Scottish Budget


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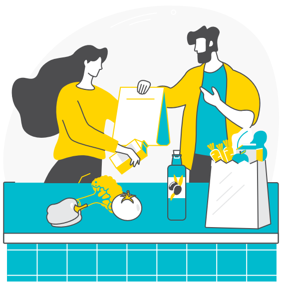
The SCOTSMAN'S LOUNGE

SNAPSHOT OF SCOTTISH RETAIL

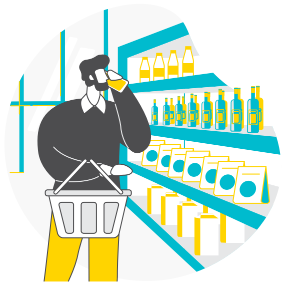


228,000
SCOTS WORK IN RETAIL

£16.6M
RAISED FOR SCOTS CHARITIES BY RETAILERS

£588M
PAID IN TAX BY SCOTTISH RETAIL

RETAIL SALES FELL -1.4% THIS PAST YEAR



FOOTFALL FELL -2.3% THIS PAST YEAR

22,500
SHOPS IN SCOTLAND

£31.2M
ADDED TO STORES' RATES BILLS THIS YEAR

FOREWORD

Autumn 2024

Dear Finance Secretary,

Retail is Scotland's largest private sector employer, a powerhouse industry with a presence in every community.

Retailers keep prices down for households, provide routes to market for Scottish manufacturers and producers, and are working hard to decarbonise their own operations and that of their supply chain. It's a vibrant industry which makes an enormous contribution to Scotland's society and economy.

Retailers have shown tremendous fortitude and resilience to come through the tribulations of the past few years of the pandemic and costs crunch by innovating and adapting their business models at pace to meet evolving customer expectations.

While these global factors have receded it nonetheless remains a testing time for shopkeepers. Retail sales are at best flat, shopper footfall has fallen, and stores are striving to trade profitably. The nature of retail is transforming and businesses need to invest to keep pace.

Stimulating greater levels of private sector investment is crucial to lifting Scotland's rate of economic growth and living standards, generating the tax revenues to support public services and alleviate poverty. It's why we are fully behind the First Minister's ambition for a more dynamic and successful economy.

To realise that ambition and make Scotland the best place in the UK to grow a retail business, this paper sets out the industry's recommendations for your upcoming Scottish Budget.

MSPs will rightly and robustly scrutinise your tax and spending plans. However, we hope a collegiate approach amongst Government and Opposition MSPs will ensure that a Budget can be passed quickly.

Indeed, to inject greater certainty into fiscal decisions we believe there is merit in pursuing a two-year Budget Accord with other political parties. This would allow for a more strategic and less piecemeal approach towards policy making, ideally with input from business to allow for a truly collaborative approach.

The Scottish Budget provides a great opportunity to bolster growth by stimulating consumer confidence and business competitiveness, reduce the cost of government, and deliver greater fiscal certainty. I commend our recommendations to you as you determine your tax and spending plans.

Yours sincerely,

David Lonsdale
Director, Scottish Retail Consortium

KEY RECOMMENDATIONS

SRC'S RECOMMENDATIONS FOR THE SCOTTISH BUDGET SUPPORT THE FIRST MINISTER'S STATED PRIORITY OF GROWING THE ECONOMY:

Inject certainty into fiscal decisions through a 2-year Budget Accord leading up to the next Holyrood election

The bulk of any gap in Scottish Government finances should be addressed by spending restraint rather than tax rises which could hold back economic recovery

Bolster consumer confidence and spending by ruling out increases in income tax rates

Shelve the misbegotten mooted business rate surtax on larger grocery stores

Restore the level playing field with England for firms paying the Higher Property Rate

Freeze the Basic, Intermediate and Higher Property Rates for 2025-26

Rule out making licenses to trade and eligibility for business rates reliefs conditional on payment of the 'real' living wage

DETAILED RECOMMENDATIONS

Cutting the cost of running government

It matters profoundly that Scottish Government finances are on a sustainable footing, as this provides a bedrock of economic stability as well as militating against the need for tax rises on individuals or firms which could stymie economic recovery. It also delivers the fiscal headroom to make GDP-enhancing investment.

Retailers know about having to cut their cloth in the face of weak revenues and spiralling costs, having dealt with increases in commodity and supply chain prices over the past few years as well as additional statutory burdens.

Our suggestions:

- The bulk of the gap in devolved government finances should be addressed by spending restraint rather than tax rises which could hold back economic recovery.
- Government should think differently about how and which services it delivers and how to do so more efficiently. The 'Independent Budget Review' - undertaken by Crawford Beveridge over a decade ago - should be revisited to see whether the structural changes to the public sector and savings it identified ought to be implemented.
- The Scottish Government's Spending Review two years ago identified 129 public bodies under its purview. To help plug the gap in government finances the number of public bodies including local councils, health boards and rates assessors should be rationalised.
- Government premises surplus to requirements should be disposed of.
- The Auditor General has noted the number of civil servants has almost doubled since devolution. Headcount should be reduced, recruitment for non-critical posts paused, and the policy of no compulsory redundances rescinded.
- The NHS could further expand the use of community pharmacy and opticians to reduce pressure on GPs and ensure healthcare provision is more accessible.
- Fewer regulatory initiatives should be progressed. Easing the cumulative burden of regulation would allow retailers – and government - to focus on mission critical tasks.

It matters profoundly that Scottish Government finances are on a sustainable footing...

Supporting consumers

Household finances continue to be under strain. Falling shop price inflation and growing real wages have yet to translate into sustained increases in retail sales or shopper footfall. Meanwhile, several statutory charges are in the pipeline which will affect household disposable incomes including the increase in alcohol minimum unit pricing, the DRS charge on drinks bottles and cans, and a levy on disposable cups.

We caution against any additional policies which might cast a cloud over what remains a tentative recovery in consumer confidence.

Our suggestions:

- Rule out further increases in Scottish income tax rates in the coming year. Such hikes would leave pay packets lighter and dent shopper spending. Scotland's elevated income tax rates for higher earners make it more expensive for retailers to hire and attract specialist and senior staff from elsewhere in the UK, with firms often paying a premium to secure talent to come and work here.
- Income tax bands and thresholds should rise in line with inflation, at least for those on modest earnings.
- Any rises in council tax should take into account the impact on household discretionary spending, as should any changes to the structure of council tax.
- Policy makers should be wary about adding further pressure on to household finances over the coming year, over and above those already planned.

Helping retailers invest

Retailers are working hard to keep down prices for customers, support colleagues, invest in decarbonising their operations, and maintain their store estate. They are doing so against a backdrop of little to no growth in retail sales and greater outlays to run their business.

Further outlays will be needed to meet additional statutory obligations on sustainability and recycling, obesity, and the national living wage.

Retail accounts for a fifth of business rates. The Scottish Government has a chequered record on business rates. Whilst we applauded positive reforms including more regular revaluations and the retention of the uniform business rate, the business rate remains onerous and is now at a 25-year high. Over two thousand shops pay more than counterparts down south, and the rates system has been bedevilled by ad hoc surcharges. A more ambitious and coherent approach would view rates as a means of stimulating commercial investment in retail destinations rather than squeezing yet more tax revenue.

An approach to tax and costs is required which helps rather than hinders retailers' ability to keep down prices for shoppers and helps them invest in retail destinations.

Our suggestions:

- Freeze the Basic, Intermediate and Higher Property Rates for 2025-26. This would provide welcome relief at a time when trading remains challenging and retailers are grappling with significant cost pressures, including April's eye-watering rates rise - the largest since devolution - which added £31m to retailers' rates bills.

- Set out a timetable to lower the business rate permanently to a more financially sustainable level for firms, which would offer a meaningful competitive advantage for all firms in Scotland.

- Restore rates parity with England for firms paying the Higher Property Rate (HPR). This discrepancy is in its ninth consecutive year and adds £10m annually to retailers' rates bills. Medium-sized and larger stores liable for the HPR underpin the vitality of our town and city centres and employ the majority of retail workers, and this surcharge makes it more expensive to maintain stores. Introduce a Poundage Rate Lock which commits to never again charging Scots firms more in rates than counterparts down south.

- Scrap the mooted rates surtax on larger grocery stores, which is being considered to help “sustain the public finances”. Arbitrarily making Scottish grocery stores liable for the highest business rate in the UK and treating them like a ‘milch cow’ would breach promises on rates competitiveness and have real world implications for stores, customers, and colleagues. A failure to shelve this surtax would suggest other economic sectors could be similarly targeted.
- Rule out making business rates reliefs and licences/permits to trade conditional on payment of the ‘real’ living wage. A swathe of commercial activity is subject to licensing provisions (including well beyond retail and hospitality) and thousands of firms are eligible for rates relief. Any extension of conditionality could substantially impact operating costs and threaten firms’ license to operate.
- The decision not to follow Wales and England and award temporary rates relief for retail and hospitality was regrettable, more so as Barnett Consequentials were forthcoming. Any revenues accruing from decisions to reduce business rates in England should be hypothecated to reduce business rates in Scotland.
- Retain the uniform business rate and the consistency and predictability it provides. A kaleidoscope of differing poundage rates, reliefs and surcharges across each of Scotland’s 32 local authorities would add complexity and cost and exacerbate the challenges faced by property-intensive sectors like retail.
- There has been a plethora of new local taxes and charges pursued in recent years, often in a piecemeal fashion. Any consideration of further devolution of taxes, levies and charges to councils should factor in the perspectives of business, the impact on firms’ costs and on consumer spending.
- Despite better legal protections for shopworkers and record spending by retailers on crime prevention more needs to be done to protect store colleagues and reduce crime against retailers. Retail crime should be in the next iteration of the Scottish Police Priorities and Police Scotland and the courts should be appropriately funded to bear down on spiralling levels of shoplifting and anti-social behaviour and to ensure justice is served swiftly.

> **Retailers are working hard to keep down prices for customers, support colleagues, invest in decarbonising their operations, and maintain their store estate...**

Easing the regulatory pipeline

Welcome progress has been made rejuvenating the Regulatory Review Group and on revamping Business & Regulatory Impact Assessments. However, a veritable gamut of often expensive new devolved initiatives affecting retailers are in the pipeline. Often these seem to take little account of trading conditions let alone wider cost pressures. These include:

- in-store restrictions on selling foodstuffs high in salt and sugar
- in-store restrictions on promoting alcoholic beverages
- a ban on selling disposable vapes and potential restrictions on placement in store
- the proposed levy on disposable cups
- personal licenses for selling fireworks
- restrictions on selling horticultural products which contain peat
- the deposit return scheme for drinks bottles and cans

Our suggestions:

This non-exhaustive list is ripe for re-examination. Some could be made simpler and less onerous. Some could be paused or end altogether. An easement would allow retailers to better focus on their customers, growing their business, and becoming more productive. It would come at a time when the new UK Government is pursuing a raft of new regulatory initiatives of direct relevance to retail e.g. on employment and product safety.

Ministers should finally fulfil the commitment in the 2014 Regulatory Reform Act and introduce a Primary Authority system for devolved regulation. This would ensure policy is implemented and enforced in a uniform manner across Scotland's 32 local authorities, which is even more pressing given the plethora of new regulations envisaged above.

ABOUT THE SRC

The SRC's purpose is to make a positive difference to the retail industry and the customers it serves, today and in the future. Retail is an exciting, dynamic and diverse industry which is going through a period of profound change which has been accelerated by the Covid pandemic. The trends are clear - technology is transforming how people shop; costs are increasing; and growth in consumer spending is slow.

The SRC is committed to ensuring the industry thrives through this period of transformation. We tell the story of retail, work with our members to drive positive change and use our expertise and influence to create an economic and policy environment that enables retail businesses to thrive and consumers to benefit. Our membership here in Scotland and across the UK comprises businesses delivering £200bn of retail sales and employing over one and

half million employees. In addition to publishing leading indicators on Scottish retail sales, shopper footfall and retail property, our policy positions are informed by our membership and determined by the SRC's Board.

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