About SRC
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 indicators on Scottish retail sales, footfall and shop vacancies in town centres, our policy positions are informed by our 200-strong membership and determined by the SRC’s Board.

A Retail Industry in Transition
A successful retail industry is a great route to better paid jobs, more private sector investment\[1\], and additional tax revenues for the public sector. It also keeps down prices for households, supports communities\[2\] and helps everyone saving for a pension\[3\]. 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. The industry provides a key market for many other indigenous suppliers, from logistics companies moving products to electricians and plasterers resolving issues in physical stores.

Scotland’s retail industry is in transition. 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 online retailing, in-store technology and order points, home delivery and logistics capabilities, 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. Retail sales growth has been at a low ebb over the past three years. Retailers are working ever harder to maintain let alone grow sales, at a time of profound structural\[4\], economic and regulatory change. Retail is currently Scotland’s largest private sector employer, employing 250,000 people directly, 13 per cent of the private sector work-force. However recent official data highlighted a drop of 16,400 posts over the

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\[1\] 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. 21% of all non-food retail sales are online
past eight years, down 6.3 per cent. During the same period there were 1,831 fewer shops, a 7.5 per cent reduction. Meanwhile net profitability in the industry has dipped to around 5 per cent of the value of sales. Embracing these changes and becoming more productive requires retailers to invest in new technology, a higher skilled workforce, revamped warehouses and transformed logistics capabilities.

Reflections on the Scottish Budget

Projections for economic growth
Prospects for Scotland’s retailers are ultimately determined by the state of the economy and their own ability to seize on the opportunities that arise. The anaemic predictions from the Scottish Fiscal Commission (SFC) for economic growth, productivity and household disposable incomes over the next few years are therefore sobering, more so as Scotland’s economy has recently underperformed the UK as a whole. As evidenced in our recent report on Scottish retail productivity, this reinforces the need for a far greater emphasis on policies which will help firms to invest and grow, which support consumers, and which minimise the cumulative burden and administrative costs for firms associated with implementing changes in or new public policies.

Income tax
As the Government has admitted, family finances are under strain and disposable incomes do not stretch as far as they used to as price inflation outstrips wage growth. Indeed, with household finances set to be tested further in the months ahead - with rises in statutory pension contributions and council tax in the pipeline - the decision on income tax to protect workers on low and modest earnings is exactly right and chimes with our own suggestion of accelerating a zero rate band. The implications for consumer spending – a mainstay of our economy – from the £164 million uplift in the income tax take remains to be seen, but less money overall in consumers’ pockets is likely to cause shoppers to carefully consider what purchases they can afford. It may also have implications for VAT revenues which are being assigned soon to Holyrood.

Together the £164 million increase in the income tax take and a £77 million uplift in council tax in the coming year would equate to 1% of total retail spending in Scotland. This is a fifth of retail sector profits. Those already stretched profit margins – where they exist – are what underpin retailers’ ability to fund their investment plans, staff training and pay rises.

Household disposable incomes are set to be challenged over the coming 18 months by a mixture of inflation, moderate wage growth and rising cost pressures. These costs include council tax, plus government proposals for an upfront charge on drinks bottles and containers. They also include higher statutory minimum employee pension contributions,

[6] Draft Budget, p2: ‘we recognise the pressure on household incomes’
[7] Draft Budget, p13, 3% uplift in council tax equates to £77 million
which will see up to 523,000 Scots\[8\] facing a rise in their contributions from 1% currently to 3% in April 2018, and then 5% in April 2019. While sound for long term pension savings it will conversely be likely to depress disposable incomes over the medium term.

**Business rates – switch to CPI**
Given the SFC's anaemic forecasts for economic growth for the next five years, galvanising private sector investment will be even more critical. In that context retailers welcome the Finance Secretary’s decision to limit next year’s rise in the business rates poundage to CPI, rather than RPI, as advocated by the Barclay Review. This is positive news that will shave £5 million off the rates bills of retailers next year, albeit their rates bills will still rise in April by 3% which equates to an extra £15 million. The SFC's forecast suggests that the switch to capping rates rises at CPI appears to be for the coming financial year only\[9\], and not permanent. Clarity over this in early course would be welcome.

**Business rates – new rates surcharge**
In its Barclay implementation plan\[10\] the Government has said it will investigate allowing local authorities to levy rates supplements on ‘out of town retail’ or ‘warehouses for online retailers’. This is purportedly to aid town centres. However, introducing new rates surcharges of this nature as a means of helping town centres is wrong-headed. Conjuring up new warehouse-only or out-of-town-only supplementary levies (over and above their existing rates bills) is not the answer to the exorbitant cost of business rates faced by shopkeepers or others located on our high streets. Public policy itself is directly contributing to the rising cost of maintaining an extensive store footprint, and in turn is making investment online more attractive as the cost and capability of technology improves and as customers' shopping habits evolve. The notion of having yet more rates levies sits ill at ease with the government’s stated ambition of seeking competitive rates with the rest of the UK. It will only make it more expensive for retailers to operate in Scotland, many of whom often have to compete with other parts of the UK for increasingly mobile capital. It remains profoundly unclear why retail alone has been singled out, whether logistics depots which support both online and physical retailing will be caught in any new levy, whether the levy receipts would actually be used to reduce rates bills in town centres (or siphoned off for other spending), and whether the new levies would be over and above any existing BID levy or Large Business Rates Supplement.

**Business rates - large business rates supplement**
We share the vision\[11\] outlined in the Budget to make Scotland ‘the most attractive place to run a business’ and to ‘provide the most competitive business rates package in the UK\[12\]. However, it continues to be the case that business rates remain higher in Scotland than elsewhere in the UK for the 21,000 commercial premises subject to the Large Business Rates Supplement, an extra cost to these firms of £62.5 million each year. This includes

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\[8\] UK Ministerial response on 2 Nov 2017 to written PQ 110359
\[9\] SFC’s forecast, page 117
\[10\] Published alongside the Budget on 14 December 2017
\[11\] Draft Budget foreword
\[12\] Draft Budget page 2
5,077 retail premises, which contribute £12 million extra. We were initially heartened when, in his Ministerial response to Barclay, the Finance Secretary said he would restore the Supplement to 1.3 pence ‘over the course of this Parliament’. We appreciate there are competing pressures on the devolved finances, but would have liked to have seen further progress in the Budget towards ending this Scotland-only surcharge and a more ambitious timeframe for restoring parity as advocated by the Barclay Review. As such, it is alarming that the Barclay implementation plan published alongside the Budget seems to suggest Ministers may be back-peddling from September’s pledge to eliminate the rates gap, saying now only that it ‘will consider’ the Barclay recommendation. Indeed, there seems to be some elasticity on this in the various documents published alongside the Budget, with the Budget document itself saying that Government had ‘accepted the remaining Barclay recommendations’ whilst the Barclay implementation plan and the SFC both saying only that Ministers ‘will consider’ reducing the Supplement. Early clarity over the Government’s intentions on restoring a level playing field on the Supplement is required.

It would be disappointing if Scottish Ministers fumbled the opportunity to reverse last year’s doubling of the Large Business Rates Supplement, which Barclay described as ‘damaging perceptions’ of Scotland. The doubling of the Supplement last year was emblematic of the many problems with rates as a whole, with little regard paid to trading conditions or the changes affecting industry, no consultation or economic impact analysis underpinning it. Making it more expensive to operate on our high streets sits uncomfortably with the Scottish Government’s Town Centres Action Plan, and raises the hurdle for attracting commercial investment.

**Apprenticeship levy**
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. The decision in the previous Budget to establish a £10 million flexible workforce development fund with a portion of the receipts from the Apprenticeship Levy was encouraging. However, firms started paying out for this UK-imposed Apprenticeship Levy in April, and a Scottish cap of £10,000 per firm has subsequently been placed on the flexible workforce development fund. Yet we know of one Scottish headquartered retailer who is paying out several hundred thousand pounds in Apprenticeship Levy monies yet is only able to claim back £10,000. We would like to see a commitment that the fund will rise in line with future increases in levy revenues, and that the £10,000 cap will be raised for levy-payers.

Scottish Retail Consortium
December 2017

[14] Page 4
[15] SFC page 118