

Finance and Public Administration Committee

Framework for the Resource Spending Review

Submission from the Scottish Retail Consortium

Scottish Government's 2022-23 Budget – SRC's analysis and recommendations

Trading conditions

1. The pandemic has been tumultuous for much of Scotland's retail industry. Retail sales in Scotland's shops in November were lacklustre, 13% lower than in the comparable period prior to the pandemic. Shopper footfall was 19% down over the same period. However, footfall plummeted last week by 10 percentage points following new public health advice and the reintroduction of Covid restrictions, and was just 75% of where it was in the same week two years ago – the weakest of the four home nations. The impact was even more profound in city centre locations given the loss of parts of the ecosystem upon which much of retail depends – for example hospitality, leisure, tourism and office workers. Meanwhile, shop vacancies in Scotland have reached a six year high, at 16.4% of retail premises.

2. This is a key trading period for retail, as is the traditional post-Christmas discounting to shift unsold stock. For furniture retailers January to Easter is their key trading period. As such, any fresh Covid restrictions on retailers' ability to trade must be avoided.

3. Holyrood's Finance Committee recently acknowledged that retailers' accumulated debts, tax deferrals and loans have grown during the pandemic. Costs are rising for businesses, including the reintroduction next year of full business rates and the increase in employers' national insurance contributions. Households too are being impacted by rising inflation and the prospect of further tax rises – which is impacting consumer confidence and discretionary spending.

4. All this places a question mark over the viability of some stores and jobs, and indeed the tax revenues they generate. It underpins the need for continued action to keep down the tax and regulatory burden and for continued support for the sector.

Recommendations

- Scrap the cap on the business rates relief for retail and hospitality for the coming financial year and extend the period that it applies for.

- Ensure retailers with restaurants who have suffered a loss of festive bookings over the past two weeks due to public health messaging are entitled to apply for grant funding.
- Pause plans to allow councils to introduce workplace parking levies from April.
- Consider a consumer stimulus for the new year such as high street voucher scheme or temporary free or discounted parking or public transport.

Overview of Scottish Budget 2022-23

5. The Budget did not go far enough in some areas such as the time-limited and capped rates relief available to retailers and the reinstatement of 100% business rates from the start of July, in contrast to what is on offer in Wales and England. There were concerning developments too, for example the reinstatement of the higher property rate surtax which previously affected 3,000 retail premises in Scotland, and the explicit permission being given to local authorities to introduce workplace parking levies from April onwards. As such, we are unpersuaded the Budget measures are sufficient and indeed in several instances will potentially increase retailers' outgoings. The decision not to be bolder on rates relief in particular will need to be revisited if trading conditions do not pick up substantially.

Consumers and Personal Taxes

6. Scottish consumers will be looking nervously to the future with little in the Budget to help them manage the ongoing cost of living pressures from rising inflation, increasing employee national insurance contributions, likely rises in council tax etc. The decision not to increase income tax rates is sensible, however changes to income tax bands will deprive households of an extra £106 million. With the cap on council tax being rescinded it's likely that tax could rise too this Spring, albeit we note local authorities are being asked to consider the impact of rises on household budgets. All of this is likely to dent household finances and discretionary spending and is unlikely to help reignite spending and entice shoppers back. It's concerning that Scottish income tax revenues continue to fall short of expectations and reaffirms the case that economic growth is vital to deliver the revenues for the Scottish Government's policy ambitions. The industry has previously suggested that Ministers consider a high street stimulus scheme – the scheme in Northern Ireland is delivering an economic boost with shopper footfall there 10 percentage points higher than in Scotland last week alone.

Rates Relief for Retailers

7. The 100% rates relief waiver over the past two years has been substantial and much needed, given that many stores were shuttered for at least 220 days, the trading and capacity restrictions shops have been subject to since the onset of the pandemic, and given retailers' outlays on PPE and Covid safety mitigations.

8. The time-limited and capped rates relief for the sector covering the first three months of the 2022-23 financial year is at least an explicit acknowledgement of the pressures the industry is likely to continue to face. However, it falls well short of the recommendations the industry set out in advance of the Budget. The time-limited and capped relief, while beneficial to the smallest businesses, pales against the offer in other parts of the UK. It will do little to help many retailers who continue to be battered by the fallout from the pandemic, especially medium sized and larger retail chains who are not only essential to healthy high streets and city centres but who pay the lion's share of retailers' business rates and employ most staff. The decision not to be bolder needs to be revisited if trading conditions don't pick up. We await clarity on whether the relief will be awarded automatically or needs to be applied for.

Poundage Rate

9. We note the below-inflation uplift to the Basic Property Rate (headline poundage rate), taking it up 0.8p to 49.8p in the £, the lowest in the UK. However, we note too that the Higher Property Rate surtax will recommence for retailers in 2022. This is a slab tax, and it means 3,000 retail premises in Scotland are set to pay 52.4p in the £, a higher tax rate than their counterparts or competitors in England. The Barclay Rates Review had called for parity on the surtax by 2020, viewing it as "damaging perceptions" of Scotland as a place to invest, and we note there was no progress towards levelling the playing field as outlined in the SNP election manifesto.

Workplace Parking Levies

10. We note from the Scottish Budget document that local authorities are to be permitted to introduce workplace parking levies from April 2022. We remain concerned that such levies remain a recipe for extra cost and complexity, especially as firms already pay business rates on the parking places they provide for staff. Such levies also introduce fresh unpredictability into firms' budgeting. In the absence of a pause on their implementation then safeguards should be built in - including firms being consulted on the design of any levies, that there is a Scotland-wide cap on the amount that can be charged so it is not punitive, a sunset provision as is the case with Business Improvement Districts, consistency amongst councils implementing the levy, and clarity over what the receipts will be used for. Also, will there be exemptions for spaces allocated for EV parking?

Devolution of VAT and NICs

11. We note from the Medium Term Finance Strategy, published alongside the Scottish Budget, that the devolution of Value Added Tax and the devolution of full control over Income Tax and National Insurance Contributions is being sought. The latter is of course being increased for employees and employers next Spring, affecting household disposable

incomes and retailers' costs as the largest private sector employer. We would be keen to understand the policy intentions were these taxes to be devolved, and any likely impact on household finances and on firms including any administrative implications.

Fees and Charges

12. We note the intention in the Resource Spending Review Framework, published alongside the Scottish Budget, to investigate opportunities for 'targeted revenue raising', possibly through new or additional fees and charges. Clarity is required over what areas might be looked at, how such fees and charges would work in practice, and the implications for firms and consumers.

Digital Sales Tax

13. We note the intention in the new Framework for Tax, published last week, to "explore" a Scottish digital sales tax. We'd urge caution given the pledge in the UK Autumn Budget to consult about a possible UK-wide online sales tax.

Scottish Retail Consortium
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