

SUBMISSION FROM THE SCOTTISH RETAIL CONSORTIUM

About the SRC

1. The Scottish Retail Consortium (SRC) is the lead trade association representing the whole range of retailers in Scotland, from independents through to the large multiples and department stores, selling a wide selection of products through centre of town, out of town, rural and virtual stores.

Overview

2. The SRC welcomes this opportunity to provide evidence to the Local Government and Communities Committee on the Non-Domestic Rates (Levy) (Scotland) (No.3) Regulations 2010. Our views in relation to the proposed Large Retailer Supplement are set out in the following sections below:

- **Retail and the economy**
- **Impact of the proposal**
- **An ineffective solution**
- **Legal considerations**

3. We would be pleased to provide additional information in any area to support this evidence.

Retail and the Economy

- **Retailers are intensive users of property in Scotland.**
 - **Retailers are key employers, contributing significantly to the maintenance and creation of high quality jobs.**
4. **The sector already faces significant economic challenges and new fiscal burdens.**
 5. **Retail is a property intensive sector:** Retail is a particularly property intensive sector, with outlets generally restricted to accessible locations, such as town centres or retail parks. Other non domestic ratepayers often have a far wider choice of site in which to locate. This restricts the market for retail property, raising both property costs and non-domestic rates to significantly higher levels than average.
 6. Retailers already pay around a quarter of all business rates in Scotland, the highest proportion of any sector. The proposed supplement would only exacerbate the disproportionate nature of the burden which falls on parts of the retail sector. A number of SRC members have provided estimates of the additional costs which will result from this supplement. Dependent on the number, location and profile of the stores in question, the estimates of company impacts range from £2 million to £8 million for the year in question.

7. Many retailers have already seen significant uplifts in their business rates liabilities in recent months. The impact of Revaluation, the abolition of transitional arrangements and the introduction of Business Improvement Districts have each led to substantial increases. These increases will be compounded by the 4.6% increase in the poundage rate which takes effect from 1 April 2011.
8. **Retail is a key employer:** The sector plays a vital role in maintaining and creating employment in Scotland. Around 11% of the Scottish workforce (250,000 jobs) are in the retail sector. At a time when many Scottish firms are experiencing considerable difficulty in maintaining employment levels, it is vital that the Government ensures that the right conditions exist for the sector to maximise its contribution to the economic recovery through encouraging job creation and investment. Any additional costs, such as those proposed in this levy, will inevitably hamper that contribution.
9. It is important also to emphasise the range of opportunities offered by the retail sector. Retail provides excellent jobs for people from a very diverse range of backgrounds in perhaps the broadest range of geographical locations of any sector. In so doing, the sector makes a concrete contribution to providing employment in some of the country's most deprived communities.
10. Retail makes a significant contribution to tackling youth unemployment, with 88,000 Scottish retail workers under 25 years of age. Of these, 49% have their highest qualification at SVQ level 3. Only 4% have no qualifications.
11. **Significant economic challenges:** The outlook for retail in Scotland is already uncertain. Crucially consumer confidence will continue to be fragile for some time to come, especially in view of the increases in VAT and NI contributions. Given a weak UK housing market and consumer nervousness about austerity measures, it's difficult to envisage a further depletion of savings boosting consumption in the months to come. In addition, earnings growth has remained weak during the past year and unemployment remains higher than before the recession.
12. Retailers will have to do all that they can to absorb the costs impacting on them if they to encourage consumers to spend in 2011. Against this backdrop, additional burdens are particularly undesirable and limit the scope for retail investment.

Impact of the Proposal

- **The proposed levy discriminates unfairly between different sectors of the economy.**
 - **The new supplement would create significant budgeting difficulties for the businesses affected.**
13. **The proposal is inequitable:** The new supplement would unfairly levy significant additional business rates on properties in a specific part of one sector. Business rates are a tax on the occupation and use of property. Objectively, nothing has changed in relation to the use of retail properties which would warrant the imposition of this levy on retail properties with a rateable value in excess of

£750,000. No persuasive rationale has been presented for either the selection of the retail sector or the rateable value threshold.

14. The decision to target individual sectors of the economy inevitably sends out worrying signals to existing and potential investors. Applying this levy solely to large retail properties is short-sighted and counter productive, particularly when private sector investment and job creation are essential to the ongoing economic recovery. It will inevitably undermine the Scottish Government's stated aim of ensuring that the country is the "most attractive place for doing business in Europe".
15. Undermining investor confidence is particularly unwelcome in the current economic conditions. For the companies affected, the introduction of this levy makes Scotland a more expensive market in which to operate than elsewhere in the UK. It also leads the business community to ask which other sectors may be targeted in the future for other sector specific levies?
16. **Notice and budgeting:** The Scottish Government's decision to announce this measure as part of the Budget process in late November without any form of associated consultation was particularly unwelcome. As a result the companies affected have inevitably been given extremely limited notice of the proposed levy. They had, without exception, finalised and set their own property budgets for the coming financial year by the time of the announcement. This absence of transparency has been compounded by the Scottish Government's decision not to provide a detailed Business and Regulatory Impact Assessment taking into account the implications for both marginal investment and job creation. This displays a lack of due consideration and transparency.

An Ineffective Solution

- **The levy is not a targeted out of town tax.**
 - **The levy does not create a level playing field between large and small businesses.**
17. **The levy is not a targeted out of town tax:** The original presentation of the policy to Parliament was confusing and misleading. The proposal was presented as a levy on out of town retail. There was a clear implication that this would in turn support town centres. This has since been demonstrated to be incorrect. The tax will be paid by all retailers with properties that have rateable values over £750,000, irrespective of where they are located. The proposed levy makes no differentiation between town centre, edge of town or out of town retailers. Neither does it make distinctions between types of retailers. Some of the properties making the largest contributions would be retailers located in town centre locations.
 18. **The levy does not contribute to a level playing field between large and small retailers:** In the explanatory notes to the Order and the accompanying media note, the Scottish Government sought to explain that the supplement "will contribute towards the cost of supporting front line services provided by councils and the continuation of the Small Business Bonus Scheme in 2011/12".

19. This does not accurately reflect the position. The reality is that all of the businesses now subject to the additional levy would, in any event, have paid the Large Business Supplement. This supplement in turn currently funds the Small Business Bonus Scheme, despite the fact that, as a result of the proposed levy, the minimum contribution from retail businesses affected would rise from 0.7p to 2.5p.
20. Retailers recognise that in the current challenging economic climate it is more important than ever for the Scottish Government to ensure that its finances are well managed. At the same time, the Government must provide an environment that is conducive to a sustainable economic recovery.

Legal Considerations

21. In the course of our broader consideration of this proposal, a number of SRC members have highlighted the need to more fully understand its legal implications. This activity is currently ongoing.

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