SandpiperCI Scrutiny Submission – Review of Retail Policy in Jersey

Background to SandpiperCI – we are the largest retail company in the Channel Islands with operations in Jersey and Guernsey. In addition, we operate retail shops in Gibraltar and Spain. We are head quartered in Jersey and locally owned by Management and Channel Islands investors, with our largest shareholder being Bailiwick Fund, a fund managed by Ravenscroft which invests solely in local companies.

Our current portfolio encompasses the following brands – M&S, Iceland, Morrisons, Checkers Xpress, Wine Warehouse, Costa Coffee, Cornish Bakery, Burger King, George, Crew Clothing, Jack Wills, Hotel Chocolat and iQ (Apple). We also own the Liberty Wharf shopping centre as well as a large number of freehold properties in the island. We employ over 800 people alone in Jersey and trade from over 45 different retail locations in the island.

Terms of Reference

1. To identify the current challenges and opportunities facing Jersey's retail sector.
2. Assess the current value of the retail sector to the island in terms of its economic, social and environmental impacts.
3. To assess what the current policies, strategies and initiatives of the Minister for Economic Development are and whether these are fit for purpose.
4. To follow up on past accepted recommendations of the previous Economic Affairs Scrutiny Panel in relation to its policy review.
5. To determine what effect the 20% tax on retail profits above £500,000 has had on the retail sector.
6. To assess the role of out of town retail areas and the impact they have on local parish communities.

We have detail below our comments on Items 1, 3, 5, 6.

1. To identify the current challenges and opportunities facing Jersey's retail sector.

There are a myriad of local challenges facing Jersey's retail sector, which is without precedent over the last 10 years. At the time of writing, the implications of a Brexit exit are unknown, so we provide no commentary other than to indicate that costs will inevitably rise to some degree as we lose 'equal partner status'. Shop vacancy rates are at their highest in memory with many large footprint shops (former Next premises in Queen Street for example) vacant and showing no sign of being let. We estimate the amount of vacant retail space in central St Helier alone to be well in excess of 100,000 sq ft. There are several factors for this –

a) As has been well-documented UK retailers are closing units across the mainland as the impact of changes to shopping habits and the growth of internet purchases continues unabated. Companies are reducing their exposure to bricks and mortar operations as they seek to right size their portfolio's. This is clearly affecting St Helier – notably with the recent closures of Mothercare, Thomas Cook, Austin Reed and BHS. Evidence suggest that this situation will only get worse.

b) The absence of a level playing field for island retailers in the form of a GST deminimus threshold continues to be a running sore. Without the buying scale of major brands, it is hard enough for local retailers to compete with large scale, international internet and High St competitors and this is exacerbated by the exemption from GST of goods bought off island below £240.

c) Parking charges continue to rise in St Helier, providing a disincentive for islanders to shop locally, rather than the comfort of their own armchairs. Rather than being an incentive to shop locally, there is a positive disincentive.

d) The supply chain to the island is consistently unreliable and is wholly dependent on one provider for roll on roll off operations with the lack of competition resulting in a high cost base.

e) Costs continue to rise for local retailers in the form of higher wages and the new retail tax, which we will return to later in this note. The tightening of employment qualifications might be a media vote winner but in reality, it is starving the islands of people who are prepared to work in the service industries. It is also driving up wage costs as companies scramble to attract employees from other competitors, which in turn is reflected in the cost of Jersey's food and retail prices. Suggestions of introducing a £10 per hour 'living wage', merely serves to underline the lack of comprehension of the pressures that local businesses face.

3/4. To assess what the current policies of the previous Economic Affairs Scrutiny Panel in relation to its policy review. To follow up on past accepted recommendations of the previous Economic Affairs…..

Despite the rising number of empty shops, we have seen little evidence of any proactive management of the growing retail problem by government authorities in the last 5 years. The island retail plan is years out of date and there has been no modelling of the impacts of reduced retail levels for town centre planning by rezoning, residential conversions, pedestrianisation, provision for more parking and relaxation of planning laws.

5. To determine what effect the 20% tax on retail profits above £500,000 has had on the retail sector.

For the reasons stated above, if ever there was a time not to introduce a tax on retail companies, then that is now. It is often said that tax has to be fair and equable if it is to be accepted by the populous. It is difficult to see any fairness if one sector of industry faces a new high tax rate(with no consultation), whilst others such as Finance(10%), hospitality, construction and gambling are left unscathed.

At this early stage, it will be difficult for scrutiny to see the full impact of this rash decision feed through. However, with our spread of business, we are uniquely able to provide clear examples of future impacts if this law is not amended.

a) At 20% this ‘corporation tax’, is higher than the UK and sends a clear message that the island is no longer open for retail businesses and sets a dangerous precedent for our tax reputation.

b) Specifically, in the last 6 months, Sandpiper has cancelled the introduction of two new brands to the island, which would have created 30 new jobs and resulted in a seven-figure capital investment and significant work for local contractors. Further, we have renegotiated terms on two other projects to the detriment of other third party island companies.

c) We are very unlikely to introduce any new brands into the island whilst this current tax regime continues.

d) The idea expounded by several senior States members that prices would not rise is a fallacy. In any household, if projected income falls by 20% then something has to give. We continue to ensure our workforce is optimised and look more critically at every cost line. We play a strong role in the parishes with our support for local charities and whilst this will continue, it will inevitably come under pressure.

e) Whilst we will ensure we remain competitive, prices will inevitably rise as we seek to redress the profit imbalance. It is purely fortuitous timing that the recent arrival of Morrisons, offering substantially lower prices will ease the pressure on food retail inflation, which would otherwise have moved up significantly.

7. To assess the role of out of town retail areas and the impact they have on local parish communities.

Our company play a major role in local communities as we cover every parish with food retail outlets. Our new Morrisons shops, bringing jobs, capital investment and lower prices across the island will support the desire of islanders to shop locally. In areas such as St Ouen, Gorey, Haute Croix, La Moye, St John, St Martins and St Aubins we remain the only real provider of food services to residents.

The lack of out of town development in the island, more a case of luck rather than judgement due to the lack of suitable sites, has mitigated damage to St Helier and the other main regional centre at Quennevais Parade, partially protecting them from the same fate that has befallen many UK town centres. Local parishes remain reasonably resilient (albeit the high vacancy levels at Quennevais Parade, driven by high rents are a concern).

Summary

The island retail companies face many challenges and the pressures are greater now than they have ever been. In spite of this, the industry should not expect government to bail it out as competition is a positive force and generally good for pricing and standards. However, the industry as a major employer and artery of vitality for the islands health, should expect to be treated the same as other business sectors. On that basis, the new tax should be standardised at the same 10% as finance currently pay and other sectors should contribute at this level. The GST deminimus level should also be abolished.

Outside of those two key actions, government needs to show far more proactivity in the management of the town centre through rezoning and provision of adequate and cheap car parking. It also needs to give serious thought to how service sector industries will survive in the future as the working population gets ever smaller and government policies make it almost impossible to fill vital employment vacancies.

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SandpiperCI