

Item: 15

Policy and Resources Committee: 23 November 2021.

Scotland Loves Local: Orkney Gift Card.

Report by Interim Executive Director of Finance, Regulatory, Marine and Transportation Services.

1. Purpose of Report

To consider a request from Scotland's Towns Partnership to support the roll out of the Scottish Government's Scotland Loves Local: Gift Card Scheme in Orkney by signing a concordat with the organisation.

2. Recommendations

The Committee is invited to note:

2.1.

That the Scottish Government has committed, under its Scotland Loves Local initiative, to launching a nationwide gift card scheme designed to promote local spending in local economies.

2.2.

That Scotland's Towns Partnership is the organisation appointed to drive the resulting Scotland Loves Local campaign.

2.3.

That Scotland's Towns Partnership wrote to all local authorities in April 2021, informing that the roll-out of the Gift Card platform across the whole of Scotland has been fully funded for the first 12 months by the Scottish Government, and requested that local authorities sign a concordat as a commitment to support the roll out and longer-term delivery of the scheme.

2.4.

That, at a meeting of the Scottish Local Authority Economic Development business group held on 21 October 2021, Scotland's Towns Partnership indicated a campaign launch date of 25 October 2021 and that 22 local authorities had signed the concordat.

2.5.

That, since 2019, Kirkwall BID has been running a Kirkwall gift card scheme to encourage local spend, with initial funding support from the Council.

2.6.

That, due to limited information, full assessment of the costs and benefits of the Scotland Loves Local initiative has thus far not been possible, with some reservations noted locally regarding the unknown level of leakage of money from the local economy.

It is recommended:

2.7.

That the Council declines to sign the concordat with Scotland's Towns Partnership.

3. Background

3.1.

The Scottish Government has launched a nationwide gift card as a scheme designed to promote local spending in local economies. Scotland's Towns Partnership (STP) is the organisation appointed to drive the resulting 'Scotland Loves Local' campaign. Miconex, an independent marketing agency, has been commissioned by STP as a Town and City Gift Cards provider to launch the Scotland Loves Local Gift Card. The objective of the scheme is to encourage consumers to spend money locally thus supporting local businesses that are recovering from the impact of COVID-19 restrictions.

3.2.

The government-funded element of the programme comprises the production and fulfilment of 32 Gift Cards that are unique to each of Scotland's local authority areas, with 5,000 cards per local authority area having been produced. In addition, Scottish Government has committed to fully covering the costs during the first 12 months of the scheme, after which local authorities are invited to commit to funding continuity of the scheme in its local area.

3.3.

STP has embarked on a campaign to sign up businesses in each Council area to be able to accept the new gift card utilising Mastercard technology. In parallel STP has been seeking to engage with local authorities to promote the benefits of the scheme but to also outline the expectation that local authorities will take over the running costs after the first fully funded 12 months. The scheme is localised for each local authority area with 5,000 cards already printed for Orkney (See Appendix 1).

3.4.

STP wrote to all local authorities in April 2021, informing that the roll-out of the Gift Card platform across the whole of Scotland had been fully funded by the Scottish Government, and requested that councils sign a concordat as a commitment to support the longer-term delivery of the scheme. The letter emphasised that the rollout success would hinge on each local authority signing its Scotland Loves Local Gift Card Concordat which will give the support of the local authority for the initiative.

STP intended to launch the programme at a national media event attended by a Scottish Government minister in mid-June with cards originally intended to go on sale in September.

3.5.

The Scotland Loves Local TV campaign went live on 26 October 2021 with cards available to purchase from the website www.scotlandgiftslocal.com. At time of writing the gift card for Orkney, and 14 other council regions, is listed as 'coming soon'.

4. STP Request

4.1.

The intention behind signing the concordat is to confirm the support of the local authority for the initiative. The concordat can be viewed online with the following link:

<https://tinyurl.com/3hc6pv8p>

4.2.

The terms of engagement of the concordat are noted as follows:

- Support the use of the Gift Card in the local authority area – in so doing, allowing the sale, use and circulation of gift cards in the local authority area.
- Promote registration and onboarding to the Scotland Loves Local Gift Card scheme amongst outlets, merchants and attractions in the local authority area.
- Work with STP partners to launch the gift card in the local authority area. STP partners can provide support with communications activities, including provision of launch pack, drafting and distribution of news release, and local photographer support.
- Provide content for a landing page specific to the local authority area to encourage use of the Gift Card in the local authority area. The content required will be the local authority logo and any introductory content the individual Council wishes to display on the landing page.

4.3.

Further to a local authority signing the concordat, a member of the STP team would then be able to discuss arrangements for launching and implementing the Gift Card in that local authority area. It had been understood that local businesses would only be adopted onto the scheme when the Council signs up. On Council sign up the region's card scheme will go live on the Scotland Loves Local web site and marketing materials, such as 'we accept the Orkney Gift card here', will be provided to the Council for onwards disbursement at the Council's own cost.

4.4.

All production and fulfilment of the product as well as merchant and customer care, will be managed by STP and its partners Miconex. The terms of business arrangement are summarised as:

- Year 1 of the scheme is free with costs being covered by support from the Scottish Government.
- 5,000 gift cards unique to each council area have been produced (See Appendix 1 for design). There are no initial setup costs for local authorities to become part of the scheme. However, a minimum order of 5,000 for additional cards would cost £4,500.
- The cost to maintain the scheme after Year 1 is stated in the concordat to be £600 per month.
- If a local authority does not wish to participate in the scheme after Year 1, it is possible to notify Miconex with a request 3-month notice period.

4.5.

The scheme provider was not openly procured and it is not clear if future costs to the local authority will be subject to a commercial discussion and agreement with Miconex.

4.6.

Neither the concordat nor a search of online information yet confirms other details that would help assess the value and full costs of the request to support the scheme. A process of question and answer with STP indicated other conditions that could helpfully be better specified. For example, it is understood that after Year 1, in addition to the £600 per month fee, the Council would be liable to cover as yet unprojected variable costs and take on responsibility for marketing the card.

4.7.

The Miconex business and revenue model would appear to be one of receiving the fixed fee, the variable costs associated with managing the card and transactions and retaining an, as yet undisclosed, level of the value of unused cards 12 months after purchase. This revenue model of receiving the value of out-of-date cards is an industry standard and is called 'breakages'. It is however unclear what the expected breakages rate will be although STP initially estimated it could be as low as 13%, but recently reduced that estimate to 4%. It has also been suggested that a proportion of breakages could be used to offset the cost to the local authority for its variable costs and future development costs. This model however remains unclear but is considered by some to represent a significant leakage of value from the local economy.

4.8.

At a meeting of the Scottish Local Authority Economic Development (SLAED) business group held on 21 October 2021, STP indicated a campaign launch date of 25 October 2021 and that 22 local authorities had signed the concordat. STP also noted that approximately 2,000 businesses in Scotland had signed up to accept the card.

5. Kirkwall BID

5.1

STP indicated that 17 other areas in Scotland including Kirkwall BID had local gift card schemes running. Kirkwall BID set the Kirkwall card up in 2019 with support of £14,730 from the Council towards start-up costs.

5.2.

During commercial negotiations between Kirkwall BID and Miconex (the same company delivering the STP regional cards scheme) it had been agreed that Miconex would take over all management (sale and fulfilment) of the Kirkwall card for 12 months. Whilst it was agreed that the Kirkwall card would not be actively marketed in competition to an Orkney card it would still remain available for purchase on the Miconex Towns and Cities Gift card site www.townandcitygiftcards.com. This arrangement would allow Kirkwall BID to assess the relative performance of the cards to inform future decisions whether to retain its card.

5.3.

The Chair of Kirkwall BID recognises the awkward position that the Council has been placed in being asked to sign up to support the STP scheme but recently assured officers that a Council decision on the regional gift card would not currently have major implications on its Kirkwall gift card scheme and can be considered independently.

6. Options and Appraisal

6.1.

Whilst there has been limited information available to provide a more detailed assessment, Appendix 2 provides an overview of some of the intended benefits with a list of caveats.

6.2.

Officers presented information about the scheme to the Economic Recovery Steering Group on 30 September. Whilst no specific conclusion was reached, a concern about any significant loss of value to the local economy was noted by the Chair. Details of the Miconex revenue model have not been shared with local authorities beyond the details in section 4.7 above.

6.3.

At the recent SLAED business group meeting STP suggested breakages of only 4% might be achievable which is considerably lower than first indicated to Officers and much lower than others such as Kirkwall BID have estimated. It is unclear what informed the revised 4% figure but it is understood that one local authority region piloted the disbursement of benefit support using the card which would likely result in no breakages. STP also confirmed that the level of potential return of this revenue to

off-set the variable costs of councils participating (after 12 months) had not yet been negotiated with Miconex. It is therefore understood that a level of breakages and fixed and variable costs would leave Orkney, but it is impossible to determine the level at this stage. It was also confirmed that the 12-month period of full cost support from Scottish Government will start from the launch date of 26 October 2021 with cards on sale only for signed-up regions.

6.4.

The Council's Legal Services have confirmed that the intended effect of the concordat is not very clear, and so neither are the consequences of any breach. A brief analysis is provided in section 10 below.

6.5.

Several local businesses operate their own in store gift card. It is not possible to predict the displacement that the Orkney Gift card would have. STP will not share details of the local businesses that have so far expressed interest in the regional scheme unless the Council sign the concordat.

6.6.

The scheme has not been consulted on locally prior to implementation by STP nor since by Officers, however a small number of retail business owners have expressed some strong concern citing leaching of money, tying cash up (rather than helping with cash flow) and general competition with in-store cards. Other views expressed have been relatively ambivalent. It is not known how many share the concern about displacement and leakage but a summary of the proposed benefits and caveats is outlined in Appendix 2.

6.7.

The options are as follows:

- Option 1 – Decline to sign Concordat:
 - If the Council does not sign up it has been relatively recently understood that the card scheme would not now be rolled out in Orkney. This risks the claimed wider benefits and economic stimulus not being realised.
- Option 2 – Sign the concordat:
 - The scheme would be expected to roll-out in Orkney as soon as practicable with businesses getting signed up to accept cards with an expectation that the Council covers costs of disbursing marketing materials to businesses and an undefined resource implication, on the expectation there will be a need for localised promotion.
 - It is understood that other running costs for the first 12 months are supported by the Scottish Government.

- Option 3 – Defer a decision:
 - Seeking to delay a sign-up decision may afford additional insight into the value of the scheme as it rolls out elsewhere and check if an opportunity is being overlooked. This could risk ongoing uncertainty.

6.8.

Obtaining information on the Gift card scheme has been challenging and whilst there is every possibility that a regional gift card may have economic benefits as intended, there remain several unknowns. There is a level of concern about leakage of money from Orkney which will not be known unless the scheme is engaged with and data captured for a reasonable period. It would be possible to sign up and give prior notice to withdraw from future funding commitment, but that would lend an artificial level of implied support. Insight from Kirkwall BID suggests that a regional gift card could be made to work but that considerable staff resource would be required to ensure cards were being spent. Kirkwall BID also advised from experience that considerable resource and effort is required to encourage card owners to spend them or risk high breakages (and money lost to the business community). This has been estimated by Kirkwall BID to be a full-time equivalent resource. It is understood that if the Scotland Loves Local gift card does not succeed or is not implemented in Orkney then the Kirkwall BID gift card would still be active and could once again be promoted locally.

6.9.

With some local business reservation and ambivalence being noted and without a strong sense of local recognition of the benefits nor future costs, on balance, Option 1, namely that the concordat is not signed at this stage, is recommended. Furthermore, Officers would intend exploring with the business community options to encourage more local spend by potentially co-ordinating a campaign to raise awareness that individual business gifts cards can be bought locally.

7. Links to Council Plan

7.1.

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Council Plan strategic priority of Enterprising Communities.

7.2.

The proposals in this report relate directly to Priority 4.2. Strategic investment in projects to generate income and/or deliver significant community benefits.

8. Links to Local Outcomes Improvement Plan

The proposals in this report support and contribute to improved outcomes for communities as outlined in the Local Outcomes Improvement Plan priorities of Strong Communities and A Vibrant Economy.

9. Financial Implications

9.1.

There is no cost to the Council if the proposed recommendation is approved.

9.2.

If the Council were to reconsider the gift card scheme then the costs after the first 12 month period would be expected as stated in section 4.7 above. However, it is not yet possible to determine the full and variable costs nor a longer-term projection as it could be subject to future commercial negotiation with Miconex.

9.3.

In addition, there would be the likelihood of additional staff resource to make the scheme work from the start that has not been estimated or factored into any plans at this point.

9.4.

The Council expended £14,730 towards the start-up costs of the Kirkwall BID card in 2019.

10. Legal Aspects

10.1.

In a legal context, it is not entirely clear what the intended purpose of the concordat is. "Concordat" is not a term which is recognised in Scots law.

10.2.

The wording used in the concordat is relatively straightforward. For example, the Terms of Business section states that, "Should your local authority wish to remain within the scheme after year one of the scheme, there will be a nominal fee to continue within the scheme from year two onwards amounting to £600/month plus printing costs for the Gift Cards. This fee encompasses participation in the scheme, fulfilment, promotion, e-commerce and platform access."

10.3.

However, this appears to be inconsistent with some of the discussions that Officers have had with STP. For example, there is mention of the arrangements for year 2 onwards with the Council being liable to cover variable costs in addition to the £600 per month fee (section 4.6), and that the level of breakages to be set against variable costs has not yet been negotiated with Miconex (section 6.3). Further, there is no mention of whether the £600 monthly fee is predicated on all 32 local authorities signing up.

10.4.

A key tenet of contract law is that there should be a clear understanding between the parties as to their respective obligations. As things stand, there is uncertainty around what exactly the costs would be, and who would be responsible for those costs, from year two onwards.

10.5.

While it would be an option for the Council to sign up for the first 12 months and then provide notice to leave the scheme, officers have concerns that signing up would raise an inference of preparedness to support the scheme beyond that period in the absence of any adverse intervening event.

11. Contact Officers

Gareth Waterson, Interim Executive Director of Finance, Regulatory, Marine and Transportation Services, Email gareth.waterson@orkney.gov.uk.

Roddy MacKay, Head of Planning, Development and Regulatory Services, Email rodny.mackay@orkney.gov.uk.

Jackie Thomson, Development and Regeneration Manager, Email jackie.thomson@orkney.gov.uk.

Stuart Allison, Economic Development Manager, Email stuart.allison@orkney.gov.uk.

Alister Brown, Economic Development Officer, Email alister.brown@orkney.gov.uk.

12. Appendices

Appendix 1: Design of printed card.

Appendix 2: Summary of proposed benefits and caveats.

Appendix 1.

Design of printed card



Scotland Loves Local: Orkney Gift Card

Summary of proposed benefits and caveats

The table below captures the main benefits and concerns or uncertainties.

Positives.	Caveats.
Promotes and encourages local spend.	Will compete with progress and success of developing the local Kirkwall BID gift card as well as with individual businesses' gift cards.
County-wide roll out, spreading benefit to all areas participating.	The potential level of displacement of value from existing local gift cards is not known.
Intended to provide a local alternative to other nationally recognised gift cards (eg Amazon, Apple etc).	After 12 months local authorities are expected to cover costs (fixed and unknown variable).
Fully funded by Scottish Government for 12 months from October 2021.	In general, it risks tying up cash for an unknown period (eg compared to an individual shop card that gets the cash at point of sale).
Can be used flexibly beyond just retail businesses, such as accommodation and restaurants.	Unclear how much revenue will leave the local economy in management fees/costs.
Backed by national launch and promotion.	Cards can still be used in any supermarket or other national high street retailer that signs up (representing a loss of local spend).
Unspent cards after 12 months 'Breakages' will offset future variable costs.	Future variable costs unknown (the level of breakages that would be offset these is also unknown).
Hotline set up centrally to handle enquires.	Future local marketing and management resource requirements unknown but estimated by Kirkwall BID to require a full-time resource to importantly promote use/spend of the card to reduce 'breakages'.
The concordat is not binding in terms of financial commitment (3 months' notice can be given).	If unsuccessful will local authorities be blamed? (reputational risk).

Positives.	Caveats.
Kirkwall BID has committed to work in partnership with Orkney Islands Council and other organisations such as Stromness Community Business Forum and Destination Orkney to ensure an optimal outcome.	‘Breakage’ unknown until scheme is run - STP initially quoted a national figure of 16% but recently reduced the estimate to 4%, other unconfirmed estimates as high as 30%.
Card can be used to issue rewards and benefits.	Communications have been confused and with limited written detail. Some information offered verbally appears to have been inconsistent with the understanding of some parties.
Kirkwall BID has arranged for Miconex to host and manage the Kirkwall BID card for 12 months.	It is understood that information on business sign-up and Gift Card Marketing material (such as ‘Card accepted here’ window stickers) will only be released to signed up businesses once OIC signs the concordat.
Signing Concordat allows access to Gift card data (that may inform review).	According to Kirkwall BID, an unknown level of resource is expected to be required during the first 12 months to maximise the buy-in from local businesses beyond use of centrally procured and generic marketing material and encourage card spending. OIC is expected to cover dispersal costs of promotional material to the local business base and any additional marketing requirements deemed necessary to ensure best chance of Gift card success locally.
Managed centrally under a national brand.	Clear operational details do not seem to be published.
	It is unclear what the implications of defaulting on the concordat would be.