Commons Select Committee on Housing, Communities and Local Government

Inquiry looking at the future of High Streets in 2030

Evidence submitted by New West End Company

1. Introduction

1.1 Thank you for giving New West End Company the opportunity to contribute to this inquiry.

1.2 New West End Company is the Business Improvement District for the major shopping streets of London's West End. We are a leading business voice in the West End, the nations' high street and the world's top shopping and entertainment district.

1.3 Comprising an Occupier BID and a Property Owner BID, we represent over 600 retail, hotel and property companies in and around Oxford Street, Regent Street and Bond Street.

1.4 Our members include most of the country's leading retailers, hoteliers and property companies. Many retailers any of have their UK or European flagship stores in the West End, and this is reflecting in the seniority of member representative on our Board.

1.5 Retailers in our district generate over £9 billion of sales annually and employ more than 80,000 people. Our district attracts over 200 million visits each year. Each day over 600,000 people walk down Oxford Street, the equivalent of the entire population of Leeds. The opening of the Elizabeth Line in December 2018 is expected to bring an additional 80 million people into the West End each year when fully operational. The district is expected to accommodate half of the 77,000 additional new jobs expected to be created in Westminster by 2016.

1.6 25% of West End visitors are international but the account for over 40% of spending, generating almost £4 billion in exports for the UK economy. The West End, with its unrivalled mix and concentration of world class retail, restaurants, hotels, theatres, cultural and heritage attractions integrated with a thriving local residential community, is a major asset for London and the wider UK attracting visitors, investors and talent to Britain from all over the world.

1.5 New West End Company's Chairman, Sir Peter Rogers, was formerly Chief Executive of Westminster City Council and the Mayor's London Development Agency. He was Special Advisor to Mayor of London on Regeneration, Growth and Enterprise

2. Summary of evidence and recommendations

2.1 Business rates are a major cost that disproportionately impact high street businesses. Retail accounts for 6% of Gross Value Added to the UK economy but pays 26% of all business rates. This damage the ability of those businesses to survive and create sufficient income to invest in improving and evolving their locality.

2.2 Moreover business rates provide an unfair advantage to online retailers who pay very little compared to high street businesses.

2.3 In the short term Government should reduce the impact of business rates by introducing annual revaluations. In the long term (post-election), to create the foundation for high streets to evolve through to 2030, business rates should be replaced with a more equitable system appropriate for modern, business which is becoming far less dependent on property use and that removes the unfair burden on high street based businesses.

2.4 However, the Government should act in this Parliament to fulfil its commitment to taxing online businesses through a revenue based tax by replacing for them business rates with a turnover tax, linked to the VAT system and set at a rate that matches, prorate, the business rates paid by other companies. The government is focussing on Corporation Tax measures, which require international agreements to be effective. But Business rates account for 45% of retailers taxation while Corporation tax is just 12%, and the Government could introduce this local tax unilaterally.

2.5 Tax raised by this new online tax should be matched by an equal reduction in the total annual business rate take, so giving high street and other non online businesses an immediate business rate cut at no cost to the Government and proving a level playing field in this area of taxation. This would help to lay the better financial foundations for town centres and high streets in 2030.

2.6 *Recommendation one – the Government should introduce annual revaluations to soften the impact of business rate changes on high street businesses and reduce the number of appeals.*

2.7 *Recommendation two – at the next General Election the main political parties should repeat the pledges they made in their 2017 manifestos that the business rate system needs reforming and should consider seriously replacing it with a more effective and equitable tax that supports town centres and high streets.*

2.8 Recommendation three – to meet the Government stated aim of ensuring a tax system that takes account of the growth of online businesses, the Government should introduce within the current Parliament, an alternative to business rates for businesses that are wholly or mainly online using a revenue based tax, consistent with current Treasury thinking and linked to the existing VAT tax system.

2.9 Recommendation four – to provide a much needed reduction in business rates for town centre and high street businesses, proceeds from this tax should finance an equivalent reduction in total business rates income through adjusting the multiplier i.e. the combined taxes should be revenue neutral.

3. <u>The importance of business rates on the future of high streets</u>

3.1 The committee is seeking evidence on what high streets and town centres will look like in 2030. One of the areas to address suggested by the Committee is the economic, demographic, social and technological challenges facing high streets and town centres and how they are likely to develop over the next ten years.

3.2 For many of the reasons outlined in section one, the International Shopping Centre of the West End is qualitatively different from most UK town centres and high streets. However, the district faces many of the same issues which will shape the future of town centres and high streets. Retailers are facing a perfect storm with a combination of weakening consumer confidence, leading to lower spending; evolving consumer trends, in particular the growth on online retailing; and higher costs.

3.3 The first two impact on high street business income with Brexit fears reducing customer spending and increasing online retailing high street spending. While many store are integrating their high street activity with web-based sales, new entrants such as Amazon and ebay that have no high street presence are taking increasing amount of retail spending from town centres.

3.4 Retailers across the UK are facing higher costs. The fall in the value of the pound is increasing the import cost of goods. Government imposed employment costs - specifically the National Living Wage (and the knock-on impact that has on those in higher salary grades) and the Apprenticeship Levy - are also becoming a bigger burden on town centre businesses which tend to employ larger numbers of people than many other sectors.

3.5 But the biggest government-imposed cost, and one of the most damaging to the future development of high streets, is business rates. They are a fixed cost that impact disproportionately on high street businesses as we will explain in more detail in the following paragraph.

3.6 The long term impact of these income and cost factors is changing the shape of high streets for the future. Lower income and higher costs not only drive out traditional stores, as we have seen with British Home Stores and store closures announced by House of Fraser and Marks and Spencer's, but they are a barrier to entry and long term success for new independent businesses.

3.7 Declining profitability also reduces the money available for businesses to invest as business contribution to enhancing their high streets through more and better trained staff, better street management services, more public realm improvements, more marketing and innovative activities to attract and retain visitors

3.8 In section 3.5 we stated that business rates are one of the biggest costs for high street businesses and have the one of the biggest impoact on the future health of town centres and high streets. Business rates are the main way in which businesses contribute to the financing of local government services. They raise around £28 billion in England each year a fixed total only increased by the rate of inflation each year.

3.9 Business rates are based on the amount and value of commercial space used by a particular business. This produces a notional rental value for each business. This value is multiplied by a multiplier calculated each year government to produce the £28 billion (plus inflation). The multiplier for large businesses in 2017/18 is 47.9p. So a business operating from a premise with a notional annual rental value of £100,000 their business rate is £47,900.

3.10 But because high street retailers, restaurants and bars use more space than office, warehouse and factory-based businesses and are situated in the highest value areas of a town or city they pay a disproportionately high level of business rates than other business sectors in relation to their turnover.

3.11 A report produced by the British Retail Consortium highlighted this stark sector inequity of a property-based business tax. It stated that the retail sector represents 6% of the UK's Gross Value Added (GVA) yet pays 26% of all business rates, over four times more than its economic performance would suggest.[1] The corollary of this is that most sectors (responsible for 94% of GVA) contribute relatively less to the financing of local government services.

3.12 The impact of this is that business that are vital to the long-term vitality of high streets, both in terms of their presence and local investment, have an unfairly large fixed cost in business rates which is disconnected to their economic performance.

3.13 But in particular business rates put high street retailers at an unfair competitive disadvantage with the growing online retails who have less space in lower value areas (i.e. a small number of distribution warehouses in low value areas). We make the distinction here between those online retailers for whom the vast majority of their sales are online (e.g. Amazon and ebay) and those increasing number of high street retailers that have growing online presence as part of their retail mix. In the latter case the online element is usually below 20% of the total sales of those companies.

3.14 In 2016 a Guardian report highlighted this inequity in an article comparing online retailers turn over and business rate payments (2014-15) with those of major high street retailers[2]. New West End Company has collated and interpreted the figures in the article to demonstrate the scale of this unfair playing field.

Company	Turnover	Multiple of Amazon	Business Rates paid	Multiple of Amazon
Amazon	£6 billion	-	£10 million	-
Marks & Spencer	£10 billion	1.7	£177 million	17.7
Morrisons	£17 billion	2.8	£300 million	30
Asda	£23 billion	3.8	£400 million	40
Sainsbury's	£26 billion	4.3	£480 million	48
Tesco's	£44 billion	7.3	£630 million	60

3.15 What this shows is that Amazon, whose UK sales in 2014-15 were 60% of those of Marks and Spencer, had a business rates bill that was less than 6% of the M&S tax bill. If the system for taxing businesses to contribute to financing local government services were based on business

[1] BRC, evidence to Communities and Local Government Select Committee inquiry into Business Rates and British Retail Consortium, "Retail 2020 – fewer but better jobs", both February 2016

[2] Based on The Guardian, "Former Sainsbury's boss wades into tax row to criticise "unfair" rates bill",February 2016
http://www.theguardian.com/business/2016/feb/11/former-sainsburys-boss-wades-into-tax-row-criticise-unfair-rates-bills

performance, rather than property value that is disconnected to economic performance, Amazon's contribution to local govern service funding would have been £106 million. Effectively the business rates system gives Amazon a 90% discount on tax to fund local services compared with high street retailers.

3.16 So high street retails face a double whammy. They have a significant fixed cost that is unrelated to their economic performance. And they have a tax system that gives their major competitor threat a massive advantage. The impact of this is seen in the actual and anticipated closure of high street stores, many of them citing business rates as a key factor.

3.17 The issue is exacerbated by the regular revaluations undertaken by government to reassess the notional rental value of all commercial accommodation. This is not meant to increase the amount of tax raised (the multiplier is used to ensure that the total amount raised from the UK's newly revalued commercial space remains the same as before the revaluation). Its aim is to spread the tax across English businesses in a way that reflects changing commercial property values since the previous revaluation. While some businesses face a welcome reduction (if their property value has declined relative to other areas) but some face increases which can be massive.

3.18 The revaluation of 2015, which was introduced in 2017 (following the 2010 revaluation) saw average rates fall in 9 of the ten English regions. But all of this reduction across England had to be balanced by an average 11% rate increases in London (and parts of the South East) that reflected the growth in growth in property values.

3.19 The average rise in London, of 11%, hides some very significant individual rises. In the West End district, retailers faced an average of 80%. Retailers in Bond Street experienced rises on over 130%. This starkly demonstrates the disconnect between property values and economic performance. This average 80% increase in business rates for West End retailers in the period between 2010 and 2015 has bears no relationship with the increase in turnover in the West end in the same period which was just 30%

3.20 As an example of the impact this had on West End retailers, one department store on Oxford Street saw its annual rates bill rise from £10 million to £15 million, with just 6 months' notice of this forthcoming rise. With profit margins of around 5%, to generate sufficient surplus to pay that extra £5 million cost, the store would have to generate around £100 million of additional annual sales.

3.21 To add to the negative impact on many high street retailers of the revaluation, most online retailers experienced a cut in their already low business rates as a result because the value of their commercial accommodates had fallen relative to London.

3.22 New West End Company (and many others) strongly believe that fundamental reform of the way in which business are taxed to fund local government services is central to the future shape of town centres and high streets, including the West End.

4. Supporting the high street with short and long-term solutions for a fairer, more efficient tax that works for business and local government

4.1 New West End Company has commissioned research from Arup and Professor Tony Travers into the shortcomings of the current business rates system, some ideas for marginal, short-term improvements and clear proposals for a new tax system that would be more effective, more equitable, and more affordable for businesses while providing the level of financing needed to fund increasing costs of local government services. Wee are happy to share this report with the committee.

4.2 The report leads New west End Company to conclude that, in the short term, more frequent revaluations will be most helpful to soften the impact of change. The Government has committed to three year reviews (rather than 5 years) to start from 2021. However, we believe that the revaluations should be annual, as the Scottish government has decided at the next revaluation. This would be more effective and would also reduce significantly the level of appeals.

4.3 *Recommendation one – the Government should introduce annual revaluations to soften the impact of business rate changes on high street businesses and reduce the number of appeals.*

4.4 In the longer term New west end Company supports proposals in the Arup report to replace business states with a turnover tax, linked to the existing VAT tax system. A turnover tax would have many clear benefits, particularly for high street businesses. It would have the following advantages.

4.5 Government would benefit because the tax would -

- Be easy and cost effective to collect via the existing VAT tax structure
- Cut local government administrative costs by removing the need for collection teams in every business rates levying authority
- Be more difficult to avoid because it is based on declared turnover. Whereas a company can reduce its Corporation Tax liability by artificially lowering its profit this cannot be done difficult with a tax on turnover
- retain the revenue neutral element of business rates by setting the annual percentage rate as a multiplier of the total national turnover which would produce a £28 billion tax take.

4.6 High streets would benefit because the new tax would -

- spread the tax more equitably across all business sectors. Retailers, at 6% of GVA should expect to pay 6% of the tax, rather than the 26% they currently contribute to business rates total. This would help high street because high street business would see their tax bills reduced.
- create a level playing field in this area of taxation with online retailers who would contribute at the same rate as high street stores

4.7 Businesses would benefit because the new tax would -

- create a link between tax and a business' economic performance that is missing with the business rates system
- minimise the negative impact on other sectors of creating a level playing field since it would be spread across the other 94% of the economy.

4.8 Clearly there will be many political and practical issues to be addressed before any change could take place. In addition, the arithmetic of the current parliament and the parliamentary time required for Brexit issues means that any consideration of fundamental reform of business taxation is unlikely to happen until after the next election. However, given the inquiry's 2030 vision, we firmly believe that this is an issue to be addressed to provide a firm foundation for town centres and high streets to thrive in 2030.

4.9 *Recommendation two – at the next General Election the main political parties should repeat the pledges they made in their 2017 manifestos that the business rate system needs reforming and should consider seriously replacing it with a more effective and equitable tax that supports town centres and high streets.*

5. <u>The quick win – reducing costs on high street and town centre businesses by ensuring that online retailers make their fair contribution to financing local government services.</u>

5.1 In his Autumn 2017 Budget, the Chancellor undertook to explore "the challenges posed for tax policy by the scale of change brought about by digitalisation". At the March 2018 Spring Statement, the Chancellor published a position paper update on corporate tax and the digital economy.

5.2 The paper focussed on Corporation Tax and restated the Governments position that the long term reform must be within an international corporate tax framework. However, the paper continued that "in the absence of such reform there is a need to consider interim measures [*to address Corporation Tax avoidance*] such as revenue based taxes."[3]

5.3 But by focussing on corporation Tax we believe that the current review misses the opportunity for addressing the problems of the business rates system. The Britiash Retail Consortium states that business rates form 42% of retailer taxation while Corporation Tax is just 12%[4].

5.4 As demonstrated in paragraphs 3.13-3.16 above, the business rate system also faces "the challenges posed for tax policy by the scale of change brought about by digitalisation". And these challenges are actively damaging town centres and high streets right now because they give a major, unintended financial advantage to online retailers over already struggling high street retailers.

5.5 The Treasury has expressed support (para 5.2) for "interim measures such as revenue based taxes". This is the basis of our long term proposal for a turn-over tax outlined in 4.3 – 4.9 above.

5.6 It would therefore be entirely consistent to exempt wholly or largely online business from the (inappropriate) business rate system and instead place a tax on their turnover at a level that raised the same amount as high street retailer chains with similar turnovers. Hence, using the Amazon example in para 3.15 above, to raise £106 million tax from a turnover of £6 billion the

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[3] HM Treasury "Corporate tax and the digital economy: position paper update" March 2018 Page 3

[4] BRC, evidence to Communities and Local Government Select Committee inquiry into Business Rates and British Retail Consortium, "Retail 2020 – fewer but better jobs", both February 2016

"online business rate alternative tax" would be set at 1.77% of turnover, collected through the VAT system.

5.7 New West End Company would further suggest that the proceeds of this tax should be added to the pot of business tax raised to help finance local government services. To ensure that this pot is revenue neutral, i.e. to retain the £28 billion annual business rate income total, Government should reduce the level of business rates by an equal amount by adjusting the multiplier each year. This would give an instant and welcome reduction in high street business rates at no cost to the Government as a result of online businesses paying their fair share into the pot.

5.8 To reflect the business rates system and to ensure that annual tax revenue from both taxes is remains at the current level plus inflation the percentage at which the online business turnover tax is set should be similar to the business rates multiplier principle and be adjusted each year in light of total online turnover.

5.9 The new tax would also reflect the business rates system in terms of exemptions and discounts for smaller businesses and current rate retention programmes.

5.10 To ensure that high street stores with a minority online presence are not taxed twice, the definition of a business that is wholly or mainly online should set a high percentage of turnover generated on line (say, 80%). Few high street stores have online retail income above 20% of the company's total turnover.

5.11 This method of tax would have advantages for Government and high street businesses without creating an excessive burden on online retailers. This new tax -

- would be relatively easy and cost effective to establish and collect through the existing VAT system.
- could form part of any changes required to the VAT system in preparation for Britain's exit from the European Union.
- could be introduced within the current parliament and without need for international support (it is a local tax for local services)
- would be tangible proof of the Government's aim of ensuring that online companies pay a fair level of taxation that reflects their economic activity in the UK
- would give a welcome cut to high street business rate bills at no additional costs to government
- would be minimal for online businesses and help address the image they have of not paying their fair share
- would be a pilot to test a revenue based alternative to business rates in the future.

5.9 Recommendation three – to meet the Government stated aim of ensuring a tax system that takes account of the growth of online businesses, the Government should introduce within the current Parliament, an alternative to business rates for businesses that are wholly or mainly online using a revenue based tax, consistent with current Treasury thinking and linked to the *existing VAT tax system.*

5.10 *Recommendation four – to provide a much needed reduction in business rates for town centre and high street businesses, proceeds from this tax should finance an equivalent reduction in total business rates income through adjusting the multiplier i.e. the combined taxes should be revenue neutral.*