NEW WEST END COMPANY
Bond Street | Oxford Street | Regent Street

Treasury Select Committee

The Impact of Business Rates on Business Inquiry

1. Introduction

1.1 Thank you for giving New West End Company the opportunity to contribute to this inquiry. We are the Business Improvement District for the major shopping streets of London's West End. We are a global partnership and leading business voice in the West End, the world's top shopping and entertainment district.

1.2 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. Our members include most of the country's leading retailers, hoteliers and property companies.

1.3 In 2017 the average rate rise as a result of the revaluation in the three streets was over 80%. During the revaluation period, sales in the district rose by just 30%. The reform of business rates is the key issue for our members.

1.4 In 2018 New West End Company commissioned a report from Arup and Professor Tony Travers of the London School of Economics (LSE) on the current business rate system and potential alternatives. The report covers many of the issues raised by your inquiry and forms the basis of our evidence to your committee. You can see the report here –

https://newwestend.com/member-services/advocacy/business-campaigns/

2. Summary of evidence and recommendations

2.1 Westminster City Council collects £2 billion in business rates annually (8% of the UK total) yet retains just 4p from each pound.

2.2 West End businesses saw an average 80% increase as a result of the revaluation introduced in 2017 although income had only grown by 30% since the previous revaluation.

2.3 High street businesses pay a disproportionate amount of business rates. Retailing accounts for 5% of GDP but pays 25% of business rates.

2.4 As the retail industry undergoes structural change at a time of falling consumer confidence and increasing costs, the unfair burden of business rates prevents high street stores from investing in change needed to respond to this. Instead many are forced to focus on short term cost cutting, leading to store closures and job losses.

2.5 The Arup/Travers report on Business Rate Reform, commissioned by New West End Company, found that the tax performed poorly against the pillars of good tax policy.

2.6 The report found that the UK relies far too heavily on property-based tax compared with most other countries, most of which use forms of local revenue-based taxes.

2.7 New West End Company believes that business rates are not an appropriate tax for the economy of the 21st century.

2.8 However, any review should be part of a wider review into business taxation to create a modern tax system that helps post-Brexit Britain thrive.

Recommendation 1. We recommend a wider review of all business taxation to ensure that the UK tax system is appropriate for a 21st century economy.

Recommendation 2. We recommend that, in the short term, the current business rate system should be amended to introduce annual revaluations and to ringfence London and other regions at each revaluation.

3. <u>The impact of changes in Business Rates policy since 2017 on businesses</u>

The contribution of West End businesses to the UK total

3.1 Westminster City Council is the largest business rate collector in England. It collects over £2 billion in business rates annually, most of that from West End businesses. Although just one of 33 rating authorities in London, Westminster collects over 25% of London's £8 billion total. This one authority collects around 8% of the total business rates in England.

3.2 Yet, due to central government redistribution, Westminster keeps just 4 pence out of every pound it collects. 96% of Westminster business rates are spent elsewhere. West End businesses paying such large amounts of business rates find it hard to understand why they do not receive levels of service that reflect the amount they pay.

The impact of the 2017 revaluation

3.3 The revaluation in 2017 saw large rises in business rates in London and in particular in the West End. The average rise over the three main streets was 80%, this ranging from an average of 50% on Oxford Street, to an average 80% on Regent Street and an average 130% on Bond Street.

3.4 London was the only one of the nine English regions to experience an increase. Every other region saw a decrease in rates bills. Once again, as has happened in every revaluation, the percentage of the total business rates raised within London increased.

3.5 This reflected the change in property value since the revaluation date of 2008 (immediately before the economic crash, when property prices across the UK were relatively high) and 2015 (when the revaluation introduced in 2017 was undertaken). By 2015 only London property prices had started to recover from the 2008 crash.

3.6 Within the revaluation period (2008-2015), while business rates for West End retailers rose by 80%, turnover rose by just 30%. This is a clear demonstration of the disconnect between business rates (based on notional property rental values) and business performance.

3.7 In previous revaluations, the impact of the revaluation was softened by transitional relief schemes that set the maximum annual increase for large businesses at 12.5%. This was to allow businesses time to adjust to the increased costs over time. However, in 2017 the transitional relief scheme capped year one rises for large businesses (with a rateable value of over £100,000) at 45% (subsequently reduced to 42% following a lobby by London government and businesses).

3.8 The late announcement of the revaluation and transition scheme (at the end of September 2016) and the introduction the new rate bills going out (April 2017) meant that there was very little time for stores to adjust to this unexpectedly large rise. As an example, one store in Oxford Street saw its business rates bill rise from £10 million to £15 million. With a profit margin of 5% the store would need to generate an additional £100 million in sales to produce the £5 million needed to pay the increase, at just six months' notice.

The impact of business rates on stores in the West End and throughout the UK

3.9 Business rates, based on the amount of commercial space used and the relative value of the property, hits high street and city and town centre businesses hardest. The structure of the business rates system means that retailers pay a disproportionally high level of this tax compared with other industries. While retail generates 5% of GDP, it pays 25% of business rates[1].

3.10 Much has been reported about the closure of stores on the high streets with business rates being a key factor. Even in the West End, the scale of business rate rises makes stores more marginal. The recent rescue of HMV, for example, involved the closure of unprofitable stores, including the flagship Oxford Street store.

3.11 But just as importantly, by driving up costs for multiples in the West End and the rest of London, those companies seek savings in more marginal stores, more often throughout the UK rather than in the West End, leading to store closures and job losses outside London.

3.12 The retail industry is going through a perfect storm of structural change, falling consumer demand (partly driven by Brexit fears), and rising costs (caused by more expensive imports, the national living wage and business rates). The industry has to change to offer a better experience to encourage visitors to high streets and town centres. While many businesses and town centres recognise the need to change, the burden of business rates is preventing long term planning and focussing efforts on short term cost cutting. The disproportionally high cost of business rates on high street retailers, many on low margins, removes money that could otherwise be invested in change. They also act as a disincentive to investment because it will lead to a higher valuation and higher business rates.

4 <u>How the current Business Rate system measures up against the pillars of good tax policy</u>

4.1 The Arup/Travers report looked at the current business rates system and assessed it against the pillars of good tax policy. The report showed that while the tax provided certainty to the

[1] British Retail Consortium, quoted in Housing, Communities and Local Government Select Committee report "High Sstreets and town centres in 2030" para 68

Government of collection and income it fell short on all other good tax pillars (Full report pages 13-17).

4.2 In particular the report found that business rates were particularly bad on the issues of equity and ability to pay. Business rates were also weak in the areas of collection, local service funding and economic impact. Ease of avoidance was the only positive element of business rates when measured against the pillars of good taxation.

4.3 New West End Company interprets this as saying that the tax is good for government collection but bad for business and economic development.

5 <u>The economic justification for a property-based business tax</u>

5.1 The Arup/Travers report highlighted the relatively large dependence on the UK (and Ireland) on property-based tax to fund local government compared with other countries. The UK, through business rates and the Council Tax, funds almost 100% of local government expenditure. In comparison, as examples, in France the figure is around 50% and in Germany around 10%. The only other European Countries where property-based taxes account for over 50% of local government funding are Ireland, Romania, Georgia, Belgium, Armenia and Bulgaria.

5.2 We do not believe that business rates should be looked at in isolation. Business rates are one part of a wider range of business taxes, which are interlinked. Addressing business rates alone may have unintended consequences. Instead, we believe that there should be a review of all business taxes to ensure that the UK's tax system is appropriate for the 21st century and that helps a post-Brexit Britain thrive.

5.3 **We recommend a wider review of all business taxation to ensure that the UK tax system is appropriate for a 21st century economy.**

5.4 The Arup/Travers Report also looked at a range of short-term measures to improve the existing business rates system. New West End Company supports two of these. First, the introduction of annual revaluations to soften the blow of increased bills as a result of revaluations. The Government has committed to moving from revaluations every five years to every three years. We believe that there should be annual revaluations, as is happening in Scotland. This would minimise the impact of the revaluation and result in fewer appeals.

5.5 The second short-term improvement would be to revalue within regions. This would freeze the percentage of the tax paid by each region. Under the current system, every revaluation has led to London paying a larger and larger percentage of the total business rate take.

5.6 **We recommend that, in the short term, the current business rate system should be amended to introduce annual revaluations and to ringfence London and other regions at each revaluation.**