NEW WEST END COMPANY

Business Rates Review: Call for Evidence. September 2020

1. New West End Company and the West End

1.1 New West End Company is the business improvement District for London's West End. We represent 600 retail, hospitality and property owners in the largest of London's two International Centres, focused around the three main shopping streets of Oxford Street, Regent Street and Bond Street and also East Mayfair.

1.2 Over 150,000 people are employed in the retail and hospitality sectors within the district and annual turnover, pre-COVID-19, was around £10 billion.[1]

1.3 Retail and hospitality are key elements in the economic eco-system of the wider West End which includes theatre, culture, heritage and substantial office based commercial activity. Together they employ over 650,000 people (including 10% of all working Londoners) and produce a GVA of £53 bn, more than the City of London and as much as the whole of Wales. Before COVID-19, the West End was a major net contributor of tax to the Treasury.[2]

1.4 The West End is one of Britain's global strengths, attracting visitors, investors and talent from around the world. The unique eco-system of world class shopping, dining, hotels, theatre and other cultural assets has a direct impact on Britain's economy and is also a major contributor to the soft power pull of London and the wider UK.

1.5 Westminster City Council raises over £2.2 billion in business rates annually, accounting for 25% of the total raised in London. Around half of that is raised in the West End. For every pound raised in Westminster, 96p is retained by the Treasury for redistribution outside the borough.[3]

2. Recommendations

Recommendation 1: Given their uniquely slow recovery, due to the lack of international visitors, within the boundaries of the two London International Centres, the 100% business rates relief should continue for another twelve months from April 2021.

Recommendation 2: The multiplier should be used during the period until the next revaluation is implemented, to ensure that business rates reflect the significant change in RV of properties, particularly in city centres and in the West End, either by a general reduction (resulting in a reduction in overall business rate burden) or focussed on particular areas and/or sectors to ensure that business rates are affordable and support growth and productivity.

3. Objectives

3.1 New West End Company's long-term objective is for the Government to ensure that business rates, and all business taxes, are fit for purpose and appropriate for an increasingly digital 21st century.

[1] New West End Company district performance figures
[2] Arup, Good Growth in the West End
[3] Westminster City Council

3.2 We also want to ensure that the business rates system, or its successor tax, reflects more closely the economic performance of the taxpayer. As an example, between the revaluations of 2008 and 2015 (the latter implemented in 2017), business rates across the West End International Centre rose by an average of 80%. During the same period, sales rose by just 30% (from £6 bn in 2008 to £8 bn in 2015).[4] It is estimated that this sales figure could be as low as £3bn in 2020 due to the loss of high spending international visitors and vastly reduced footfall generally.

3.3 In the immediate term, as a result of the impact of COVID-19, we want to ensure that there are the short-term reliefs necessary to enable West End businesses to survive until sales start to return to their normal levels so that the West End can continue to be a major net contributor to the Treasury.

4. Current economic environment – COVID-19

4.1 The dramatic decline in visitor numbers and the inability of certain elements of the West End economy (such as theatres and night life) to operate under social distancing rules is threatening to breakdown this eco-system and destroy this valuable global asset, just as Britain leaves the EU and seeks an independent path in the world. It threatens the net tax take that the West End has consistently delivered to The Treasury.

4.2 Of particular importance to the UK economy is the West End's draw to international visitors. Almost half of the £10 billion annual spend in the West End is from overseas travellers. This is a direct £5 billion injection of foreign money into the economy, with all the tax and employment benefits that brings. This is now lost as the temporary suspension of international travel, particularly from high spending markets, means that for at least 12 months there is little chance of it being restored.

4.3 The recent announcement by the Treasury of the abolition of the VAT RERS scheme is a further major blow. The West End accounts for around 65% of the £3.5 billion annual tax-free shopping sales. With Britain now the only country in Europe not to offer a tax-free shopping, we envisage that a large proportion of that tax-free shopping will now be lost to Paris, Milan, Madrid or any other European city. This will have a significant, long-term negative knock-on effect on all West End retail, hospitality and leisure businesses, as well as property and rental values.

4.4 This dramatic loss of income is exacerbated by the halt of most domestic tourism and the lamentably low number of office workers returning, mostly due to fear of using public transport. In London, office worker return is around 30% compared with over 80% in Paris and Berlin. In the West End only 10-15% of office workers have returned. The passenger capacity on the tube is only around 25% of normal, way below the level that the West End needs to function properly.

4.5 Footfall in the West End has plateaued at around 45% of its former levels, compared with around 75% across the UK. The average transaction value has plummeted as high net worth individuals are not yet travelling to the UK. Anecdotally, we have heard that three-month advance hotel reservations levels, usually at 80% at this time of year, are now as low as 7%.

4.6 As a result, we are predicting a fall in annual turnover of West End retail and hospitality of between 70-80%, with sales of just £2-3 billion in the 12 months from March 2020. We expect around one third of West End retail jobs to be lost (around 50,000 jobs) by the end of the year.

[4] New West End Company sales figures

There could be many more in the hospitality and cultural sectors that also depend on tourism and business hospitality to thrive or indeed to survive.

4.7 It is against this evidence of the impact on the local economy of COVID-19 that we base our proposal for immediate short-term relief.

5. Immediate short-term measures

Section 3.1 Reliefs, Question 2: How can reliefs be targeted more effectively? How can reliefs and their administration be simplified?

5.1 The business rates holiday for retail, leisure and hospitality businesses announced by the Chancellor in March 2020 was welcome, temporarily removing a major cost for businesses. We appreciate that the measure was introduced at speed and as a result included a large number of businesses and, as stated in 3.3 of the Call for Evidence, cost the Government £10 billion in lost revenue.

5.2 The slow return of office workers and the lack of international and domestic tourists means that the West End is unlikely to start recovering until well into 2021. Furthermore, the Treasury's removal of the VAT RES scheme is a structural change that means the West End may never return to its previous trading level as international visitors do their shopping in other European cities, attracted by tax-free shopping.

5.3 The ending of the furlough scheme and the end of the business rates holiday will produce overwhelming costs for West End. With business rates at around £1 bn and income down to as little as £2 billion, business rates alone could be around 50% of income, which is clearly unsustainable.

5.4 Professor Tony Travers of LSE has pointed out that business rates in the West End are now based on 2015 economic conditions when it is likely that West End retailers will be operating at between 10-20% of that level and hotels at between 0-10%.

5.5 As many tenants have renegotiated leases and rents with their landlords, business rate levels now have absolutely no link either to economic performance or to rental values in the West End and are now one of businesses' highest costs. It should be noted that some businesses have not managed to secure lower rents so that in some cases the combined cost of rents and rates alone are more than their sales income.

5.6 As the transition period ends retailers are likely to face increased costs for importing goods which will further add to business cost.

5.7 The Treasury wishes to be more targeted in its use of reliefs. We are aware that the BRC are proposing a 50% relief for retail, leisure and hospitality businesses nationally. While we support this, we do not believe that this will be enough to save West End businesses.

Recommendation 1: Given their uniquely slow recovery, due to the lack of international visitors, within the boundaries of the two London International Centres, the 100% business rates relief should continue for another twelve months from April 2021.

Section 3.1 Reliefs, Question 3: What evidence is there on the capitalisation of business rates and business rates reliefs into rents over time? What does any evidence mean for the design of rates reliefs and business rates more broadly?

5.7 There is no evidence that the 100% business rate relief has led to capitalisation. Indeed, it is quite the opposite. Many landlords have reached lower rental agreements with their tenants. We are not aware of any that are seeking to raise rent levels.

6. Mid-term measures

Section 3.1 Reliefs, Question 7: How could the multiplier be set in future to ensure the sustainability of public finances and support growth and productivity?

6.1 The Government has postponed the business rates revaluation, due in April 2020, to April 2021 for implementation in 2023.

6.2 We cannot understand how this revaluation can take place, given that the West End will still be struggling from the COVID-19 impact.

6.3 Many retail and leisure occupiers have paid little or no rent for last three quarters. The rental value is currently effectively zero. This is likely to be the situation in many businesses in April 2021 and beyond.

6.4 Even if a revaluation can be undertaken in April 2021, current renegotiated rents are well below the 2015 level and yet this will not be reflected in rates bills until April 2023.

6.5 There needs to be a mechanism, following the end of any reliefs, to reflect the changed economic circumstances until the revolution comes into being in 2023. The multiplier could be used to address this issue.

6.6 This could focus on two areas. First, for the Government to accept the need for a reduced business rates burden on all businesses during the recovery period and cut the multiplier to achieve this.

6.7 Secondly, the Government should vary the multiplier, geographically or by property type, as suggested in para 3.24 of the Call for Evidence, to ensure that business rates are affordable and support growth and productivity in areas and sectors hardest hit by the economic impact of COVID-19

Recommendation 2: the multiplier should be used during the period until the next revaluation is implemented to ensure that business rates reflect the significant change in RV of properties, particularly in City centres and in the West End, either by a general reduction (resulting in a reduction in overall business rate burden) or focussed on particular areas and/or sectors to ensure that business rates are affordable and support growth and productivity

7. Long-term reform

7.1 New West End Company will respond to tranche two of the call to evidence, exploring long-term reforms, by the October 31st deadline.