Business Rates Review: Call for Evidence

London First "Improving the business rates system: tranche one response"
September 2020

Our Organisation

London First is a business campaigning group with a mission to make London the best city in the world to do business, for the benefit of the whole UK. We convene and mobilise business leaders to tackle the key challenges facing our capital. Our membership is drawn from the capital's leading employers across a wide range of sectors, overseen by a non-executive board of influential business leaders.

Executive summary

- The spread of COVID-19 has put enormous pressure on British businesses in the short-to-medium term. The problem is acute in central London, where the pandemic has led to substantially reduced footfall and demand.

- The business rates system, even before the impact of the pandemic, was falling short of many of the pillars of good tax policy. Muddling through was tolerable in a period of stability and growth but, in the current economic conditions, there is an urgent need for action.

- The immediate focus needs to be on supporting business through the recovery and making business rates fairer and more sustainable. In the short-to-medium term, business rates simply will not – and cannot – be expected to deliver their historic stable yield.

- The short-term priority is to extend the 100% relief for businesses in hospitality, leisure, and retail for 12 months beyond April 2021. The Government should extend this support to other sectors similarly hit, such as aviation.

- In the medium term, the Government should address the unfair regional concentration of the overall tax burden by abandoning the requirement for revaluations to be fiscally neutral for the 2023 revaluation.

- Longer-term reforms will be considered in our tranche two response.

Introduction

1. The spread of COVID-19 has put enormous pressure on British businesses in the short-to-medium term. The ongoing pandemic looks to be creating challenges even greater than the 2008 recession, with record GDP falls, investment stalling, and potential mass unemployment. The hospitality, leisure, and cultural sectors – parts of which have been unable to reopen at

the time of writing – along with many bricks-and-mortar retailers are especially strained.

2. The problem is acute in central London, where the pandemic has led to substantially reduced footfall and demand and low levels of office workers and domestic and international visitors. In the first full month since the reopening of non-essential retail on June 15, footfall in the West End was down 73 per cent year-on-year for the same period, lower than the rest of the UK (around 70%).[1] Retail sales in London are heavily reliant on overseas visitors. The pandemic has halted this spending, and it is unlikely to begin to return until 2021.[2]

3. London relies more heavily on public transport than any other UK region, with hundreds of thousands of people commuting principally to the Central Activity Zone (CAZ). At the time of writing, TfL's network is running at reduced numbers, with the tube at 33% and buses at 57% of normal, pre-pandemic volumes[3].

4. The UK recovery will rely on recovery in London. The capital is responsible for approximately 22% of UK GVA[4], with the CAZ alone generating around 12% of national output[5].

Short-term improvements to the business rates system

5. The government has rightly focused pandemic-targeted relief on the most affected sectors of the economy. One hundred percent relief for all businesses within retail, hospitality, and leisure – irrespective of rateable value – has helped many of London's high streets. For businesses in central London facing the double challenge of lower footfall from office workers and a significant reduction in international visitors, it has been a lifeline.

6. The government should now extend this business rates holiday from April 2021 for 12 months and review the need for further continuation in 2022/23 in light of the state of the economy nearer the time. Many of these businesses are currently planning for the end of the government's furlough scheme and for reduced demand. Giving certainty now on the government's intentions will save jobs and stop closures.

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[1] London's West End at risk of losing £5bn in sales & 50,000 jobs, Retail Gazette, July 2020. Available at https://www.retailgazette.co.uk/blog/2020/07/londons-west-end-at-risk-of-losing-5bn-in-sales-50000-jobs/

[2] OECD, Tourism Policy Responses to the coronavirus (COVID-19), 2 June 2020. Available at https://www.oecd.org/coronavirus/policy-responses/tourism-policy-responses-to-the-coronavirus-covid-19-6466aa20/

[3] See: https://twitter.com/BBCTomEdwards/status/1305820636800061441

[4] OND, Regional economic activity by gross value added (balanced), UK: 1998 to 2017. Available at https://www.ons.gov.uk/economy/grossvalueaddedgva/bulletins/regionalgrossvalueaddedbalanceduk/1998to2017

[5] GLA Economics: Working Paper 68, Work and life in the Central Activities Zone, northern part of the Isle of Dogs and their fringes, Gordon Douglass, August. Available at 2015https://www.london.gov.uk/sites/default/files/gla_migrate_files_destination/Working%20Paper%2068.pdf

7. In addition to supporting the hospitality, leisure and retail sector, the government should consider whether it has drawn too harsh a line between those sectors receiving support and those not. In particular, the aviation sector has experienced similar catastrophic impacts on footfall through lockdown and continued quarantine rules. The Scottish Government has recognised this and included airports in their rates holiday.

Medium-term improvements to the business rates system

8. The government intends to defer the next valuation to 2023. The uniform business rate is reset at each revaluation to maintain the same level of revenue. As rental growth varies geographically, with rates increasing more steeply in London, this means that the total tax burden is increasingly concentrated in the capital.

9. This was unsustainable even before the pandemic. An ever-increasing proportion of the national business yield was coming from a relatively small number of properties in central London. The system puts an unfair burden of taxation on London and, in particular, on central London.

10. In future, revaluations of the uniform business rate should be fixed with revenues raised from business rates allowed to fluctuate directly in line with changes in the property rental values. Abandoning the requirement for revaluations to be fiscally neutral would create a less distorted geographical concentration.

11. We recognise that removing the requirement for fiscal neutrality will mean that the aggregated tax take from business rates will fluctuate over time. This is likely to have implications for government finance, and, therefore, it is prudent that reforms to business rates are considered alongside the total tax contribution. Given the scale and unpresented nature of the pandemic, the recovery is expected to take several years, and so business rates simply will not – and cannot – be expected to deliver their historic stable yield at the next revaluation, or indeed beyond.

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