BUSINESS LDN

Transforming business rates

BusinessLDN response to HM Treasury consultation, March 2025

BusinessLDN speaks for over 170 leading businesses in London, spanning a wide range of economic sectors, including many of the Business Improvement Districts across London. Our mission is to make London the best city in the world in which to do business, working with and for the whole UK.

BusinessLDN welcomes the opportunity to respond to the HM Treasury 'Transforming business rates' consultation. The Government's commitment to reform the business rates system, and its stated objective to support the retail, leisure and hospitality sectors is welcome, and should be a key pillar in the Government's overall growth mission.

Our assessment of the proposed reforms is that they will not achieve this stated objective and recommend that the Government pause, conduct a full impact assessment on the proposed reforms, and rethink the proposals based on the findings before proceeding.

In this submission, we set out:

1. The importance of business rates reform working for London, as well as the rest of the England, to support economic growth;

2. Why the proposed reforms will result in a significant increase in the burden on business in the capital, hitting retail, leisure & hospitality firms as well as scale-up businesses in London;

3. Why the Government should keep the prospect of further devolution on the table, as part of the package of reforms;

4. How to ensure the Valuation Office plays its part in boosting certainty, predictability and the pro-growth agenda; and

5. The limitations of the Government's proposed approach to business rates reform, which is essentially shifting the burden around the existing system.

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It’s important that reform of business rates works for London, as well as the rest of England, to support economic growth...

London is an economic engine for the whole UK. The city’s Central Activities Zone is home to a range of world-leading clusters that together account for almost a tenth of national output. Overall, the city is responsible for a quarter of the country’s economy. It’s hard to shift the UK’s growth dial without London firing on all cylinders

The recently published London Growth Plan[1] identified the ‘experience economy’ as one of London’s key strengths and one of the global city sectors that will be fundamental to growth in the capital. The combination of retail, leisure and hospitality are vital not just for their economic contribution, but also London’s ‘soft power’ positioning the capital on the global stage.

Business rates form a significant part of the operating costs for businesses in these sectors. Against a backdrop of rising costs pressures, they have a heightened sensitivity to changes in business rates.

And yet the proposed reforms will result in a significant increase in the burden placed on businesses in the capital...

BusinessLDN has significant concerns about the increased burden on firms London relative to other parts of the country that will arise from the proposed reforms. This is because the proposed £500,000 threshold for firms to benefit from the proposed permanently lower multiplier will play out very different in parts of the country such as London that have much higher land values. So, the profile of firms that will be out of scope for the lower multiplier will look very different – and be much smaller – than in other areas.

Fresh analysis[2] commissioned by the Heart of London Business Alliance (HOLBA), one of the Central London Business Improvement Districts, in association with Attis, the town centre consultancy, calculates that from 2026/27 a further £2.2bn taxation will be imposed on occupiers of higher value properties, on the assumption that the Government introduces a 10p increase in the multiplier for properties subject to the higher rate multiplier. Because of higher land values, businesses in London will bear the brunt of this increased tax hike.

The HOLBA analysis suggests that the increase for properties with a rateable value of more than £500,000 could amount to an increase in business rates of £781m per annum for Inner London and £191m per annum for Outer London. The combined total of £972m a year is equivalent to 44% of the total increase that the HOLBA study estimates will be raised for the whole of England.

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[1] https://growthplan.london, March 2025

[2] The Potential Impact on Businesses of the Government’s Business Rates Reform Proposals, Heart of London Business Alliance commissioned research in association with Attis

The analysis supports fears that the multiplier threshold will result in many more firms in the retail, leisure and hospitality sectors in the capital being subject to the higher multiplier than firms of a similar size and profile elsewhere across the country. This also has consequences for growing businesses in London. Because of the proposed £500,000 threshold, the higher rate multiplier will kick-in at a much earlier stage of a company's expansion in London than would be the case for firms at an equivalent stage in their life cycle in other parts of the country, acting as a 'glass ceiling' on scale-up firms in the capital.

The government should keep the prospect of further devolution of business rates on the table, as part of the wider package of reforms…

BusinessLDN has long argued for further devolution in the capital and elsewhere across the UK. As set out in our report 'A new deal for London: the business and economic case for further devolution in the capital'[3], England remains one of the most centralised democracies in the G7 as highlighted by OECD data on the share of overall tax revenues raised by local or state governments.

We argue that local areas are more likely to back growth-enhancing policies, even if they are politically difficult, if they come with strong incentives to grow the revenue stream on a lasting basis. So, we reiterate our call for full business rates growth retention, with the prospect of specific growth zones offering additional flexibility.

The Valuation Office has a part to play in boosting certainty, predictability and the pro-growth agenda…

The Valuation Office clearly plays an intrinsic role in the business rates system and therefore has a significant influence over what is a substantial part of the cost base for many firms.

There are recent examples of the Valuation Office proposing changes to the methodology applied to how business rates are calculated in certain sectors, such as airports and serviced offices, that would have a material effect on the cost base for these businesses. There is also the prospect in some cases that these changes could be applied retrospectively.

This approach runs counter to the Government's commitment for a more certain and predictable tax regime. To address this, the Government should provide a pro-growth steer to the Valuation Office, akin to the welcome approach being taken with economic regulators.

The underlying problems of the current business rates system will not be addressed by simply shifting the burden around the existing system…

[3] 'A new deal for London: the business and economic case for further devolution in the capital'[3], BusinessLDN, October 2024

The in-person nature of the retail, leisure and hospitality sectors mean that they are significant occupiers of property. It has long been the case that the UK relies more on property taxes than other G7 countries. OECD data[4] shows that the UK has both the highest property tax revenues as a share of GDP (at 4.1%) and the highest property taxes as a share of total tax revenue (at 12.4%) amongst the G7 nations.

Therefore, any reforms that are limited in scope to shifting the burden around within the business rates envelope is unlikely to have a transformational effect on the retail, leisure and hospitality sectors or deliver a pro-growth agenda. When the fiscal situation allows, the Government should look again at business rates in the round, with clear timelines and scope for this exercise to avoid creating undue uncertainty.

In summary, BusinessLDN recommends:

1. That HM Treasury conduct a full impact assessment to understand the economic consequences of the proposed business rate reforms before proceeding.

2. Subject to the results of that impact assessment, the Government should pause and re-think the proposed reforms to ensure that they achieve their stated objective and that there isn't disproportionate burden placed on the London economy, which is vital for the UK's growth.

3. That the Government should issue the Valuation Office with a pro-growth steer, along similar lines to the direction recently given to economic regulators.

4. The Government should keep the prospect of further devolution of business rates on the table as part of a broader package of reforms.

5. As the fiscal situation allows, HM Treasury should undertake a more holistic review of business rates in the round of business taxation to tackle the underlying issue, rather than just shifting the burden within the existing business rates envelope.

BusinessLDN
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[4] OECD Revenue Statistics 2024 report