



Business Rates Consultation To be submitted by 31 October 2020

Introduction

This is a response to the Government's Review of the Business Rates system. It is being submitted by the South Westminster Business Alliance, formed of the Northbank, Victoria and Victoria Westminster Business Improvement Districts.

Covering an area of central London stretching from Victoria Station to the Royal Courts of Justice on the fringes of the City of London, encompassing key London landmarks including Westminster Abbey, the Palace of the Westminster and Somerset House, the South Westminster Business Improvement Districts combine to be the second largest BID in London, second only to New West End Company.

We are mixed sector BIDs, including hospitality, retail, culture and corporates and each year we raise over £3 million, through a small levy on business rates, to invest across the South Westminster footprint. Victoria BID was established 10 years ago, Northbank seven years ago and Victoria Westminster was established in 2018.

Taking the three areas together, pre-COVID they contributed a total output of £9 billion each year. The BIDs are home to a workforce totalling 141,000 jobs, equating to 19% of the workforce of Westminster, and of a similar scale to the entire city of Derby or the London Borough of Hammersmith and Fulham. Were even 10% of the jobs within the BIDs subject to layoffs, the London-wide unemployment rate would increase by over 2 percentage points.

We understand that Business Rates currently play a vital part in the UK's economy, and indeed form the basis of our levy income, however we believe that as a tax system they are no longer fit for purpose and that it imposes an unfair burden on some businesses. The Government's fundamental review is therefore welcome, and we are pleased to be contributing to this Consultation.

We believe a new approach is required which is more flexible, transparent, fair and takes account of new trends we are seeing on the British high street, especially in the wake of the COVID-19 pandemic.

Our Proposals

- A simpler, more modern system

More clarity and helping businesses to reach a better understanding of the tax system would be desirable. The business rates system, from the valuation process to appeals is opaque and difficult to navigate. For example, it takes 25 months for a revaluation to take place so the position can change substantially when the rates are revealed. Simplifying the rates relief system too would be welcome – there are too many different types of rates relief and it is difficult to understand.

Digitising the system could make it quicker and easier for people to access / understand. There should be greater transparency about what the tax pays for and this could be illustrated via graphs and charts on bills to help businesses understand the breakdown and importance of their tax contribution.

- A fairer system

The current Business Rates system is a blunt tool which does not reflect the myriad types of businesses that occupy work spaces today. Growth has traditionally been linked to square footage, but our business world is changing and the smaller the floor plate of a business does not necessarily equate to smaller commercial profit. This currently leads to significant unfairness in the system.

If we are looking at tinkering with the current system, rather than a wholesale rethink, we would recommend the introduction of a more sophisticated multiplier system, with additional multipliers included to take account of variations by geography and the revenue of the business.

Sitting alongside a revised Business Rates system we would also recommend the introduction of an Online Sales Tax, which we know is something potentially under consideration. The money raised via this new tax could result in a reduction in the business rate burden on businesses (estimated to be as much as 20%) and a levelling up of the tax system for businesses across the UK, particularly high street retailers.

We think it is also worth mentioning the recent decision to cease tax free shopping for overseas visitors at the end of this year. Although not directly linked to Business rates we know, from talking to a number of businesses within our footprints, that this is yet another blow, at a time when many are still struggling and are worried about the end of the Business Rates holiday. The decision is not just something that will impact retailers, it will have a ripple effect across many sectors including hospitality and culture. The reality is that the tax free incentive does encourage visitors and this gives people a clear reason to go elsewhere. We would urge the Government to rethink its decision.

We also note than one suggestion for tax transformation is the introduction of a Capital Values Tax (CVT) but have concerns that this could result in rental increases passed on to tenants in order for property owners to cover the costs of the new tax. This would not be a fair or welcome evolution of the system.

- COVID support / Post COVID era

Many businesses are still struggling to deal with the ongoing ramifications of the COVID-19 pandemic, especially those in the hospitality and cultural sectors. We ask the Government to consider an extension to the business rates holiday introduced at the start of lockdown. An extension beyond April 2021 should be considered, bearing in mind some sectors are still not able to operate, or can only operate in a limited way.

Although longer term we would like to see more regular revaluations, we do welcome the decision to postpone the 2021 revaluation to 2023 to provide more certainty for businesses impacted by COVID-19.

We note that the current system sees 50% of business rates retained in local areas and we recommend this figure is increased to aid local recovery programmes. Local authorities, supported by Business Improvement Districts, are leading the recovery in local areas and are best placed to know what is happening on their high streets, and crucially what is needed to support business growth.

Giving councils greater discretion to spend local business rates in their areas not only makes the tax a more palatable one for businesses to stomach, it also will boost local economic growth. Local authorities should also be given the discretion to exempt certain areas (high streets with lots of empty units, for example) so they could use this power to incentivise investment in those locations.

We welcome the opportunity to feed into this review but would also ask for the opportunity to join a meeting with HM Treasury officials. Business Improvement Districts are close to both the vagaries of the business rates system and the unique issues facing high street businesses, at present.

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