HEART OF LONDON BUSINESS ALLIANCE

Transforming Business Rates

A Consultation Response by Heart of London Business Alliance

1. Introduction and Overview of HOLBA's Response

1.1 Heart of London Business Alliance (HOLBA) is a membership organisation representing over 700 businesses and property owners across iconic areas of London's West End - including Piccadilly, Leicester Square, and St Martin's Lane (The 'Heart of London' area). Just over half of the businesses we represent are in the retail, hospitality and leisure sectors and we are committed to safeguarding the West End and enhancing the area's economic, cultural, and social vitality. The Heart of London area in the West End contributes over £10 billion in Gross Value Added (GVA) annually,[1] supports more than 100,000 direct jobs[2] and attracts over 150 million visitors each year.[3]

Our area forms a major part of London's internationally renowned West End which has been identified in the Mayor's recent London Growth Plan as the driver of London's experience economy - one of five pillars prioritised for growth in the Capital.

1.2 HOLBA welcomes the Government's commitment to reforming England's Business Rates system as per the Labour Party's 2024 Manifesto which commits the Party to "replace the business rates system" in England and to "level the playing field between the high street and online giants, better incentivise investment, tackle empty properties and support entrepreneurship"[4]

1.3 This consultation paper, "Transforming business rates" states that "over the course of this Parliament the Government will create a fairer business rates system that protects the high street, supports investment and is fit for the 21st century."[5]

1.4 The Government's first step of this programme of transformation is the proposal to introduce permanently lower multipliers for high street retail, hospitality and leisure businesses (RHL). The consultation paper also includes a range of related measures but our response focuses on the multiplier proposals.

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[1] Annual Economic Real Estate Report 2023 – 2024, Heart of London Business Alliance

[2] Latest Available GVA and Employment data from ONS

[3] Annual Economic Real Estate Report 2023 – 2024, Heart of London Business Alliance

[4] Labour Party Manifesto June 2024

[5] James Murray MP Forward to the Transforming Business Rates Consultation Document, October 2024

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An overview of HOLBA's Response

1.5 HOLBA's response focuses on two issues:

- The impact on businesses within the Heart of London area
- The extent to which the proposals meet the Government's stated objectives

Stage One – assessing the impact

1.6 Both elements require an assessment of the likely impact of the Government's proposals to introduce lower multipliers for retail, hospitality and leisure businesses (RHL) funded by a higher multiplier for businesses in properties with a rateable value of over £500,000.

1.7 Since the Government has not published an impact assessment, HOLBA commissioned experts in local government finance who have used government data to assess the impact (the full report is attached as Appendix 1).

1.8 The assessment concludes that only 16,340 businesses in England are in properties with RVs of over £500,000 out of a total of over 2 million rateable properties (0.8% of the total) with 36% of these being in Greater London, most of those in Inner London.

1.9 Based on current valuations, assuming the higher multiplier is raised by the maximum 10p, this would generate up to £2.2bn additional tax across England[6] of which £972m (44%) would be raised in Inner London. This would represent a 20% increase in business rates for inner London businesses with RVs of over £500,000. This is in addition to an expected rise of business rates bills in London because of the 2026 revaluation which will be implemented at the same time.

1.10 The analysis concluded that, because Inner London boroughs retain only a small proportion of their business rates, approximately 20% in overall terms and as low as around 6% for the City of Westminster and City of London combined,[7] the proposed changes will result in a direct shift of the burden of financing the lower multiplier from the Treasury to London businesses.

1.11 The assessment also suggests that the proposals will not achieve the Government's objective of "levelling the playing field between the high street and online giants." It estimates, for example, that of that potential £2.2bn additional taxation on higher value property occupiers, Amazon would pay just £11m, or a mere 0.5% of the total.

[6] Excludes business rate revenue that would be generated by applying the higher multiplier to assets on the Central Rating List

[7] Research undertaken by Pixel Financial Management https://pixelfinancial.co.uk/ for the London Property Alliance, 2024 see https://www.londonpropertyalliance.com/wp-content/uploads/CWPA25_LPA_Plan-for-Growth_Digital-1.pdf, p11)

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Stage Two – HOLBA's response

1.12 **Based on this assessment HOLBA cannot support the Government's proposals.** They place a significant additional tax burden on Greater, and particularly Inner, London businesses whilst raising no additional income for London local government. HOLBA recommends that the Government does not proceed with this policy proposal.

1.13 However, HOLBA agrees with the Government that the current system needs reform to "level the playing field between the high street and online giants, better incentivise investment, tackle empty properties and support entrepreneurship." **Retaining the status quo is not an option.**

Stage Three – HOLBA's proposed way forward

1.14 HOLBA proposes that rather than rush through a proposal that is not supported by an impact assessment, the Government should take the time to examine other options for reform that better meet the Government's objectives. HOLBA commissioned town centre vitality agency, Attis, to produce an alternative option which is attached as Appendix 2.

1.15 The option is similar to systems used in virtually every other European country. A new Combined Business Rate would comprise two elements - a Property Business Rate based on the current system and a new Digital Business Rate based on a small levy on *all* online sales in the UK, excluding financial services and a few selected digital sectors, collected using the established VAT collection system.

1.16 HOLBA believes that the new Combined Business Rate would modernise the existing business rates system to take account of the growth of the digital economy; widen the tax base significantly; raise the revenue levels the Government requires; reduce Property Business Rates by 37% for all standard multiplier businesses and by 31% for small business multiplier businesses ; use the existing tax collection systems so require no new legislation or tax system; and be ready to introduce in the 2025 Budget. This new proposal is included as Appendix 2.

2. HOLBA's Response – two key issues

2.1 HOLBA's response is based on two key issues –

- the impact on businesses in the Heart of London area and
- the extent to which the proposed policy meets the Government's stated objectives

The impact on businesses in the Heart of London area – the need for an impact assessment

2.2 HOLBA is at the heart of the West End in Central London and at the heart of London's experience economy. The Mayor recognised the importance of the West End and the experience economy in his recently published London Growth Plan.

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"London's city centre has been at the heart of the global economy for hundreds of years. The West End and the Square Mile are unique and inimitable. London's city centre is 11% of the entire UK Economy and vital to achieving the national and London growth missions"

"Central London is the jewel in the UK's crown – we must nurture it."

"We prioritise the experience economy and international education because they are some of the foundations of London's prosperity, as well as important sectors in their own right."

"London's students, tourists and culture are not a nice to have – they are the very foundations of our prosperity. We need tourists to sustain the lifestyle which attracts the best talent, which in turn drives growth and attracts investment"

"While all three sectors do not rank among the most productive, the experience economy matters because it is what makes London a brilliant place to visit, study and live. London is the world's favourite destination and one of the most visited places on the planet"[8]

2.3 HOLBA supports the Mayor's views on the importance of the West End and the experience economy to the growth, not just of London but the wider UK. That's why the impact of the proposed business rates reform on HOLBA's area is of both local and national concern.

2.4 Chapter Two of the Government's Consultation Paper, "Protecting the high street", proposes that the post-Covid (temporary) relief enjoyed by high street businesses (RHL) will be made permanent but at a reduced rate (down from 75% rate in 2024/25 to 40% in 2025/26).

2.5 Whilst currently the cost of the RHL relief is borne by the Government, the Consultation Paper proposes moving the cost of future relief (from 2026/27) for RHL businesses occupying properties with rateable values of below £500,000 to those with RV values above this threshold.

2.6 In order to respond to this proposal, it is necessary to understand the implications of this move. It will clearly result in an increase in the overall business rates burden as the government shifts the cost of funding this relief from the Treasury to businesses in premises with rateable values over £500,000.

2.7 However, the consultation paper makes no reference to the impact on, for example, growth, competitiveness or employment. Neither does the Non-Domestic Rating Bill, an enabling Bill currently before Parliament. This new legislation will permit the Government to introduce additional multipliers should it decide to do so and sets limits on how much the rates for new multipliers can differ from the rates of existing multipliers.

2.8 We understand from the Government that the reason no impact assessment has been provided is because the new multipliers will only be set according to the outcome of the

[8] The Mayor of London "London's Growth Plan" February 2025

revaluation process (and the current fiscal environment) which will only be known shortly before the 2025 Budget.

2.9 In response to a series of Parliamentary Questions tabled in late 2024/early 2025 by Sir Geoffrey Clifton Brown MP, Chairman of the Commons Public Accounts Committee, the Exchequer Secretary stated that "tax policy and legislation is not subject to the Better Regulation Framework Guidance which requires an impact assessment to accompany policy decisions. Nevertheless, when the new multipliers are set at Budget 2025 – to take effect in the 2026-27 Billing year – HM Treasury intends to publish an analysis of the effects of the new multiplier arrangements."[9]

2.10 The effect of this is that the Government is consulting on measures whilst giving little indication of their impact – good or bad. This makes it very difficult for informed or evidence-based responses by consultees.

HOLBA's Impact Assessment

2.11 To guide HOLBA's response, we commissioned an impact assessment from some of the UK's leading experts in local government finance and business rates. Town centre vitality agency, Attis, brought together Alexander Jan, former chief economist at Arup, Gavin Chait, lead data scientist for Whythawk and Professor Tony Travers of the London School of Economics. This expert team used data provided by local authorities under FOI requests to determine how many hereditaments fell into the different categories involved in this proposal and estimated the impact on businesses, based on the latest available data (2023).

2.12 In the absence of the 2024 revaluation data, this is the most up to date assessment possible and provides a better guide to HOLBA of the likely impact than the absence of data in the Government's consultation paper.

2.13 This is consistent with advice given by the Exchequer Secretary in his answers to the series of Written Parliamentary Questions tabled by Sir Geoffrey Clifton-Brown MP, Chairman of the Commons Public Accounts Committee. In response to Sir Geoffrey's questions on various elements of the impact, the Exchequer Secretary replied that the information required was contained in the Non-Domestic Rating Lists and statistics published by the Valuation Office Agency.[10]

2.14 The impact of the 2024 revaluation will be revealed at around the same time that the new multipliers are announced in the 2025 Budget. Without this Attis study it would be difficult

[9] Exchequer Secretary, WPQ 29414, tabled February 6th 2025, answered February 13th 2025

[10] See, for example, WPQ 29411, tabled February 6th 2025, answered February 13th 2025

for any response to be made based on any real evidence in time to influence the Government's policy decision. Moreover, it seems likely that the revaluation will see rateable values rise in London so that the impact of the new policy on London is likely to be even worse than the Attis assessment suggests.

The findings and conclusions of the Attis Impact Assessment

2.15 The full Attis Report is attached as Appendix 1. The key findings were:

- England's business rates system is in need of reform
- High streets and RHL businesses need support but that this support will fall from £2.5bn in 2024/25 to around £1.5bn in 2025/26
- The Government's proposed changes are going to make a challenging system even worse
- From 2026/2027, a further £2.2bn of additional taxation could be imposed on occupiers of higher value properties. This is on top of other new business costs, such as employers' national insurance and before taking into account the impact of any higher multiplier(s) for enterprises on the central rating list
- The increase in business rates will generate no additional income for local government because the proposal simply moves the cost of support from RHL from the Treasury to businesses occupying higher RV properties
- The introduction of new multipliers will make the existing business rate system far more complex to administer
- The Government's loosely defined categories creates the risk of many more disputes about valuation
- Inner London will bear the brunt of the increased tax hike, paying 44% of the additional £2.2 billion, at nearly £1 billion a year.
- This major increase in business rates could damage much of central London's retail, hospitality and leisure offer as well as weaken London's wider economy
- The change will amount to a direct shift of much of the burden of funding reliefs across the whole of England from the Treasury to London businesses
- The reforms will not achieve the Government's objective of targeting online giants to support the High Street. Amazon, for example, will contribute only £11 million of the up to £2.2bn additional tax that could be levied on businesses – just 0.5%.
- The increase in business rates from warehouses and distribution centres could amount to an additional £365 million per annum. This will lead to additional costs for high street businesses, many of which uses these facilities to supply their retail operations

2.16 The Report recommends that the Government should release a full impact assessment and allow sufficient time for a full and open debate to take place.

The implications of the Report findings

2.17 **Based on the forecast impact on businesses in its area, it is clear the HOLBA cannot support the Government's proposals for additional multipliers.**

2.18 Effectively the Government's proposals amount to up to £2.2bn additional tax imposed on businesses in England. The focus on businesses occupying higher value premises will inevitably lead to a disproportionate impact on Inner London businesses, particularly those in the West End. Approximately 12% of HOLBA's member businesses will be impacted by these proposals (compared with a national figure of less than 1%), the majority of which are in the retail, hospitality and leisure sector and include businesses such as book retailers, cinemas, hotels and restaurants.

2.19 On top of other increased business costs introduced by the Government, this will further limit the ability of London's experience economy to grow and undermine some of the Mayor's key objectives in the London Growth Plan.

2.20 But in addition, the proposals work against the Government's aim of supporting high streets and levelling the playing field between the high street and online giants. The implications of this new policy would be to:

- increase the tax burden on high street businesses paying more than £500,000 in rates, leading to potential job losses and closures. Losing anchor businesses damages the vitality of town and city centres for all businesses.
- increase the costs on high street businesses that will have to pay more for using distribution centres which will face higher business rates
- see the impact of higher costs in inner London premises be reflected outside London in the most marginal stores of national chains. So, while the fiscal impact might be on a flagship store in the West End, the practical impact will be felt by job losses and closures in the most marginal stores.
- in addition, the study suggests that the online giants will not bear anything like the brunt of the proposed potential £2.2 billion tax increase. The £11 million increase for Amazon represents only 0.5% of this amount.

2.21 This suggests that, far from supporting the high street, this policy will damage it further and make little impact on the online giants. During the Lords Report Stage of the Non-Domestic Rating (Multipliers and Private Schools) Bill, amendments were passed that exclude high street anchor stores and medical facilities from the higher multiplier. However, since this is enabling

legislation, these new provisions do not commit the Government to making these amendments.[11]

2.22 The Impact Report also highlighted practical issues that will place burdens on businesses, local government and the Valuation Office Agency. In particular:

- making an already complicated system even more complicated with the introduction of multiple multipliers
- confusion over the exact definition of RHL businesses
- the probability that these two issues will lead to more disputes and appeals against individual valuations resulting in More costs for businesses
- a greater burden for the VOA in responding to appeals
- more financial constraints for local authorities that will have to retain additional funds in their reserves to cover the cost of any successful appeals. They are still holding back almost £1bn for provision for appeals still to be determined from the 2023 revaluation![12]

2.23 HOLBA is concerned that the lack of the publication of an impact assessment by the Government until after the decision on multipliers have been made and announced, means that these serious issues have not been highlighted and so are unlikely to be properly discussed during the consultation process.

3. <u>The need for alternative methods of reforming business rates</u>

3.1 The Government is committed to reforming business rates to achieve its stated objectives. HOLBA does not believe that the Treasury's policy proposal will meet those objectives but will instead make the situation worse, harming high streets, restricting growth and doing nothing to level the playing field with the online giants.

3.2 The past two attempts to reform business rates faced similar problems and in both cases the key proposals were dropped so that only minor technical issues were addressed. These did little to reduce the burden of business rates.

- In 2013, the Government announced a review of business rates in the Autumn Statement. A discussion Paper was published in April 2014 and an interim response from the Government was published in December that year. This recommended that revaluations should be more frequent, and the government committed to introduce three-year revaluations from 2021.

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[11] Lords Hansard "Non-Domestic Rates (Multiplier and Private Schools) Bill. March 18th 2025

[12] DLUHC "Official Statistics – Non-Domestic rates collected by councils in England: Forecast for 2024-2025 " "Local authorities estimate the appeals provision will be £986 million in 2004-25. The figure for 2024-25 represents authorities' best estimate of the future loss of non-domestic rates on the new 2023 rating list"

- The Conservative Manifesto 2017 proposed supporting businesses affected by business rate revaluation, introducing more frequent revaluations to prevent sharp increases, and exploring self-assessments in the valuation process. It also committed to a full review of the business rates system to ensure it remains fit for a changing economy, particularly with the rise of online shopping. However, only a revaluation was carried out with transitional arrangements introduced to mitigate impacts on small and medium-sized businesses.
- In its 2019 Election Manifesto, the Conservative Party was bolder, committing to a "fundamental review of the business rates system." In 2020 the Conservative Government published a call for evidence which included two alternative systems, one based on capital values tax, and another based on an online sales tax. In the event the Government fell far short of a "fundamental review", dismissing ideas for an alternative tax system and instead made a series of minor technical changes, the most extensive of which was the move to three-year valuations.
- The COVID-19 lockdowns resulted in the temporary introduction of business rate relief mainly for high street businesses (RHL) initially of 100% in 2020 and 2021, reducing to 75% in 2022 and 2023 and then to 40% in 2024.

3.3 HOLBA believes that the Government should not proceed with the proposal to introduce additional multipliers but nor do we believe that the Government should simply remain with the status quo. For all the reasons given over many years by governments, businesses, professionals and academics, the business rates system is not fit for purpose in an increasingly digital, 21st century economy. This is evidenced by the increasing range of reliefs that successive governments have introduced as sticking plasters on a broken system in place of any fundamental reform.

3.4 The Government states that the current proposal is just the start of a programme of measures to transform business rates during the life of this Parliament. HOLBA urges the Government to explore other ways of transforming business rates.

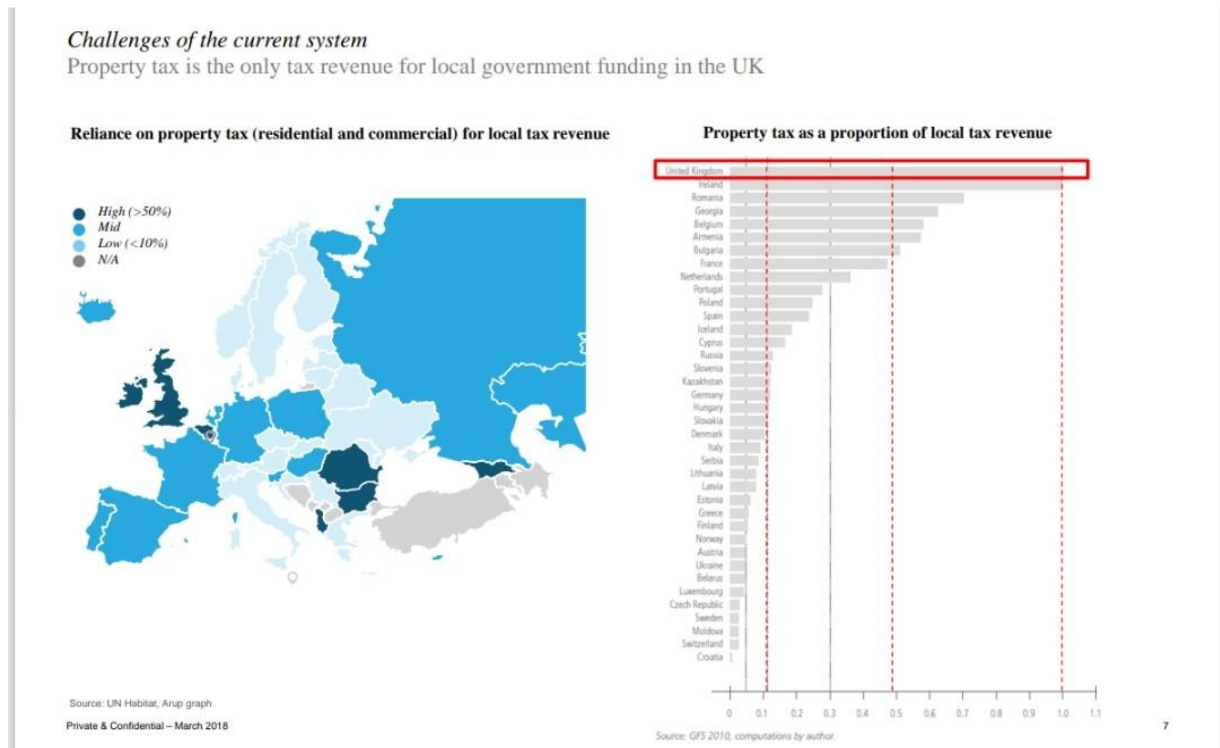
4. <u>Alternative systems</u>

4.1 Successive governments have attempted but failed to reduce the burden of business rates suggesting that it is difficult to find an effective alternative. The Treasury has been clear that the property-based tax has advantages to HMRC in that its yield is highly predictable given that the link between rateable values and economic performance is largely broken, particularly in Central London, and being property based, it is difficult to avoid. But it is clear that a system that is good for HMRC is not seen as good for business and growth.

4.2 An Arup study undertaken by Professor Tony Travers and Alexander Jan for New West End Company in 2018 showed that the UK and Ireland stood out amongst European countries for their reliance completely on property taxes to fund local government. All other European countries used a hybrid tax system with a mix of property taxes and taxes based on economic

performance, for example through sales or profit. Far from being the only way to fund business contributions to funding local government services, a reliance solely on business rates is actually an aberration.[13]

Tax Reform Technical Study, Arup, 2018



4.3 So, in theory and practice there are alternative ways of transforming the business rates system which we believe that the government should explore before proceeding hastily with the current policy.

4.4 HOLBA asked Attis to propose an alternative, hybrid system to illustrate how this might be done. The full details are in Appendix 2 and an outline is provided below.

An Alternative System for Business Rates - The Combined Business Rate

4.5 The proposed alternative system is based on the principle that all businesses operating in the UK should contribute their fair share to the funding of local government services. In the UK, business rates are the government's chosen method for businesses to make this contribution. But this system was devised before the advent of the digital economy and is based on the scale and value of property used by a business as a way of determining its contribution. With the digital economy generally using less property and in less high value areas, its contribution to business rates is therefore less. This has created a declining tax base which will only shrink

[13] Alexander Yan and Professor Tony Travers "Tax Reform Technical Study" Arup 2018. Produced for New West End Company and available on request.

further leaving a falling proportion of traditional businesses paying higher and higher business rates.

4.6 To evolve business rates to include more effectively and fairly the growing digital economy, Attis suggests the formation of a "Combined Business Rate" comprising two elements - a Property Business Rate based on the current system and a new Digital Business Rate, a small levy based on all UK online sales and collected using the existing VAT collection system. The outline proposal is:

- The Property Business rate is based on the established system, but the multiplier is reset at its original 1990-91 level of 34.8p. This would be equivalent to a 20.7 pence reduction in the current standard multiplier of 55.5p and a 15.4 pence reduction in the small business multiplier of 49.9p; significant reductions of 37% and 31% respectively
- At this far lower rate the Government would need only one multiplier and potentially no reliefs. The reduction in the multiplier is very close to the level of relief proposed for RHL in the Government's currently preferred scheme
- Based on Treasury figures, the Property Business Rate element would raise £23.6bn gross but without the costs of reliefs, this is closer to a net figure.[14] The current system raises £36.356bn gross but the government pays £8.3bn in various reliefs and, with other costs, this gives a net yield of £28bn.[15]
- The Digital Business Rate element is a Levy on all online sales, excluding Financial Services and a few other groups of online sales for reasons explained in Appendix 2.
- This differs from the previous proposal that was based on online retail sales only.
- Adhering to the principle that all businesses should pay their fair share of financing local government services, we do not see any justification for excluding large elements of online sales of goods and services.
- The proposal suggests some specific areas for exception, and the possibility of setting minimum turnover thresholds to support small and start-up businesses,
- The established VAT collection system would be used to estimate the level of eligible sales and therefore the size of each Levy, as well as to collect the Levy.
- An important point is that the Digital Business Rate Levy, like the Property Business Rate, is paid by the digital seller (effectively the digital occupier) not by the digital landlord, the owners of the platforms.
- Using very broad estimates, Attis estimates that a 1% Digital Business Rates Levy on all online sales could raise up to £3bn. So, with the Property Business Rate Multiplier set at 34.8p and charging a 2% Digital Business Rates Levy, the Treasury would raise around £29.6m in total, more than under the current system.
- The Combined Business Rate would therefore meet the government's objectives of:

[14] HMT "National non-domestic rates collected by councils in England: forecast for 2024-25" May 2024
[15] HMT *ibid*

- raising at least £28bn
- cutting all business rates - by a significant 37% and 31%
- ensuring that the digital sector pays its fair share
- modernising the business rates system by integrating more effectively the digital and non-digital sectors
- supporting high streets by reducing costs and levelling the playing field with online competitors.

- the proposed new Combined Business Rate:
  - needs no new legislation
  - needs no new tax reporting and collection systems
  - could be implemented in the 2025 Budget by announcing that there will be just one Multiplier, set at 34.8p and that a new Digital Business Rate Levy of 2% will be introduced for all online sales in the UK
  - would be simpler, reduce bureaucracy and minimise valuation appeal numbers

4.7 The difference between this and other proposals is that this widens the tax base by ensuring that all online businesses pay their fair share of businesses' contribution to the funding of local government services. The Government's current proposals simply transfer the cost of reduced business rates away from the Treasury to higher level business rate payers, the vast majority of whom are the existing tax base.

4.8 Full details of the Combined Business Rate are given in Appendix 2. This includes impact and outcome comparisons with the Government's proposed additional multiplier policy and the current system.

5. Conclusion

5.1 HOLBA believes that the Government's proposals will not support growth or help the high street to compete against online giants. The additional multiplier proposed for companies operating from higher value properties is likely to add up to £2.2bn of additional tax each year with nearly £1bn of that being paid by London businesses.

5.2 The proposal does nothing to address the shrinking tax base which is making the business rate system unsustainable. HOLBA believes that there is another, more imaginative option for reforming business rates which meets all the government's objectives and creates a modern, sustainable tax system that will help UK's high streets by ensuring that the growing digital economy is included more effectively in the tax base.

5.3 HOLBA recommends that:

- **The Government examines in more detail the new Combined Business Rate proposal alongside its additional multiplier policy to decide which would be best to introduce in the 2025 Budget to achieve its stated objectives**

Ros Morgan

Chief Executive

Heart of London Business Alliance

March 2025