Central London Forward

Central London Forward: Fundamental Review of Business Rates 2020 – Representation to Treasury

Who we are:

Central London Forward (CLF) is the strategic sub-regional partnership for central London, covering the local authorities of Camden, the City of London, Hackney, Haringey, Islington, Kensington and Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth and Westminster.

Central London is a critical part of the national economy. The 12 boroughs host around one in 10 of the country's jobs. Central London's net contribution to the UK's tax base helps to pay for vital public services across the country. But inequality is pervasive and there are 2.3 million people living in poverty in the capital. Central London remains one of the most economically impacted parts of the country by COVID-19.

Our goal is to improve the lives of residents by working together to drive inclusive growth within central London to ensure they can access the skills, jobs, homes and support required to benefit from our dynamic economy. We do this through our policy research, lobbying activities and employment programmes. Our work is outlined in further detail in our Skills and Inclusive Growth Strategies, as well as our more recent submission to the Comprehensive Spending Review.

Introduction:

This consultation response focuses on aspects of the Fundamental Review of Business Rates on which central London has a clear collective strategic voice. This includes:

- Online Sales Tax
- Small Business Rates relief
- Frequency of valuation

More technically detailed responses have been submitted by our individual member boroughs.

COVID-19 has exacerbated existing financial concerns for local government and is now presenting additional challenges which test the financial resilience of boroughs in central London and beyond. Boroughs in London are in a deficit of £1.4b in funding due to COVID-19 (London Councils, 2020). Any reform of the Business Rates system should include careful consideration of what the monies collected are used for and what they support. Business rates are a vital part of local government finance and currently account for 30% of revenues (IFS). We welcome the acknowledgement of this within the paper.

Reforms must be placed in the context of wider influences on local government finances including the Spending Review, the Fair Funding Review, social care reforms, and the proposed Devolution White Paper. This will enable government to take a holistic approach to the implementation and impact of the proposals, working with local government stakeholders to develop reforms that work for both councils and businesses. We anticipate working closely with government as these proposals are developed further – full and detailed consultation with ratepayers and boroughs with worked examples will be key to developing a robust and effective system.

We also encourage government to consider the implications of these proposals for wider fiscal devolution. CLF boroughs have previously called for local authorities to have a greater role in setting and directing a suite of taxes at a local level and we have welcomed the government's stated objective for 100% of business rates to be retained locally. Compared with other developed countries, the UK is an outlier in the level of tax raised and spent locally (Communities and Local Government Committee, 2014).

We recognise the need for further reform beyond the proposals consulted on this Autumn, and we look forward to working with government on this.

An alternative to business rates - Online Sales Tax:

Recommendation: Develop a complimentary Online Sales Tax and Business Rates system. CLF supports the proposed Online Sales Tax (OST) and believe that a hybrid approach – continuing to collect business rates but supplementing local government revenue through an OST – should be considered.

Bringing the tax system in line with changing trends in spending

High street and other brick-and-mortar retail and commercial properties are experiencing structural change with changing consumers trends and rising costs. At a time when businesses need to invest in innovation and adaptation in response to these longer-term threats to the high street, they face fierce competition from online provision. This trend increased during the COVID-19 national and local lockdowns. During the national lockdown online retail sales accounted for over 30% of total retail sales for the first time (ONS, 2020).

Online retailers often pay significantly reduced business rates due to the high proportion of their estates being made upon light industrial or warehouse space which has a much lower rateable value. In Inner London[1] retail space has an average rateable value of £298 per sqm compared to £94 per sqm for industrial space (including warehouses) (VOA, 2020).

Recommendation: Expand focus of OST to include non-physical goods and transactions. Currently the proposed OST is aimed at goods sold online. Whilst this would create a fairer system between high street and online retailers, this does not create a more equitable system for other high street businesses.

CLF would welcome consideration of widening the parameters to include online providers of non-physical goods to increase the tax yield:

- Online travel agents
- Online software providers
- Online-only property agents
- Online-only professional services, such as accountancy

The government must carefully consider the impact on businesses which have both an online and brick-and-mortar presence to reduce the risk of double-taxation. Consideration should also be given to the implications for small online businesses such as independent sellers on platforms like eBay or Etsy who might otherwise be exempt from rates.

[1] Inner London is defined here as including the CLF member boroughs as well as Hammersmith and Fulham and Newham.

Supporting a sustainable model of local government finance

An OST will help bring the tax system up to date and in line with trends in consumer and commercial spending. It could also be key to shifting local government finance to a more sustainable footing. The current fiscal model is under considerable stress and a broader range of taxes is required to ensure that local government can continue to deliver effective services for our residences and build back better. Revenue raised through an OST could be an important part of this diversification of income.

Research carried out by Arup commissioned by Westminster City Council estimates the total raised by an OST nationally at a 2 percent rate would be about £1.4 bn in 2019/20. If the parameters of the OST were widened to include all e-commerce transactions this would raise approximately £10bn-£12bn nationally.

To make this a viable revenue stream for local authorities we would like to work with central government to develop a proportionate return for boroughs which is aligned with the business rates system.

Recommendation: OST should be used to ensure sustainable local government finance. Any new OST model should be developed in partnership with local government. We would urge central government to work closely with local government and ratepayers in designing and setting this tax to create a system which reflects the needs of different local communities and enables investment to grow local economies. We would welcome the opportunity to engage in a full consultation process focused on how the OST might work within existing taxation systems and commercial property structure.

Small Business Rates Relief (SBRR):

CLF welcomes the economic support and relief that the current Business Rates system provides through the provision of eligibility-based grants. However, we ask the government to consider reform of two specific areas in order to support more small businesses.

Supporting small businesses in Central London

The way the scheme is structured, with the relief system based on a rateable value threshold of up to £15,000 and £15,001 to £50,999, creates inequities in the relief available to businesses. Differences in rateable values and sectoral composition in different areas has led to significant variations in the share of properties entitled to support across the country. In England around 70% of non-domestic properties have a rateable value of £15,000 or below. In the areas of London with the highest rental value, such as Kensington and Chelsea or Westminster less than a third of businesses have a rateable value below £15,00. In Camden and Islington the figure is less than half (IFS, 2020).

Central London's businesses are therefore doubly hit – disadvantaged as a result of higher rents and as a result higher rateable values.

COVID-19 has highlighted the unfairness of this system on small business which operate in the capital, and the nationally set threshold has made many businesses ineligible for support even though they have experienced similar existential threats as elsewhere in the country. Small businesses in London will be key to our economic recovery and should be supported.

Recommendation: The threshold for SBRR should be reviewed, with consideration given to a separate threshold for central London and/or London as a region.

Ensure fairness for businesses in serviced offices

CLF would also welcome a review of how SBRR is applied to business operating in a serviced office environment. We are concerned that while small businesses are held liable for business rates and therefore eligible for SBRR, we are aware of cases in which serviced office providers require tenants to allow the provider to administer rate payments and application for the SBRR on their behalf. Although in many instances this will be effective, we are concerned that in some instances the full benefit of the SBRR is not received by the small business.

Recommendation: Work with local authorities and ratepayers in serviced offices to ensure all eligible businesses receive SBRR.

Carbon Reduction Incentive:

To contribute to the achievement of the UK's target to reach net-zero carbon emissions by 2050 we suggest government consider the introduction of a carbon-reduction incentive. This would provide a fiscal incentive for businesses which have invested in energy efficiency. The government's Clean Growth Strategy recognised that improved business energy efficiency could deliver up to £6 billion in cost savings by 2030 and generate one of the single largest carbon-saving measures.

Italy has used a similar strategy to incentivise energy efficiency improvement uptake by offering corporation tax credits for businesses. The scheme incentivised 1.5 million improvements on both homes and businesses between 2007-2012 (Environmental Industries Commission (EIC) UK, 2018).

Recommendation: Work with local government and rate payers to develop a new a carbon-reduction incentive for businesses.

Frequency of valuations:

In order to better reflect actual property values, CLF recommends reducing the two-year gap between the valuation date for revaluation assessments and their coming into effect to one year, and to undertake revaluations annually as is the current system in Scotland. This would better align business rates to property values and provide a current picture of the commercial property market. This may also have the effect of minimising the impact of the revaluation and result in fewer appeals. However, we recognise that this will require a significant increase in resources and technological investment.

Recommendation: Introduce annual revaluations and reduce the two-year implementation process following revaluation to one year, investing in the necessary resource and technology to do so.

CLF welcomes the government delaying the next revaluation until 2023 due to COVID-19. However, we are concerned that in a period of significant economic uncertainty and change, this will not provide an accurate representation of property values in central London and any change in business rates introduced as a result may have disproportionate impacts.

Offices in central London are predicted to decline in value by as much as 10% in 2020 as COVID-19 has driven down demand for space. Take up of commercial property across central London fell sharply to a near record low in the second quarter of 2020, reflecting the closure of most London business premises in this period. Take up was equal to 1,140,000 square foot in Q2 2020, down from 3,000,000 square foot in the same period last year, a fall of 62%. Active demand was also down 18 per cent, pushing the vacancy rate up to 5.5% (Centre for London, 2020).

Recommendation: Base the next revaluation on property values in April 2022 to provide a more accurate picture of the commercial property market post COVID-19.