NEW WEST END COMPANY
Bond Street | Oxford Street | Regent Street

<u>BY EMAIL</u>
Rt Hon Rishi Sunak MP
Chancellor of the Exchequer
1 Horse Guards Road
London
SW1A 2HQ

18 November 2020

Dear Chancellor,

One Year Spending Review - 25 November 2020

On behalf of over 600 retail, hospitality and property businesses within the West End International Centre, we would like to submit our views for consideration in your One Year Spending Review on 25 November 2020.

In normal times, the West End is both a direct and indirect driver of economic and job growth with over 10% of all Londoners working in our district[1] and a GVA that exceeds that of the City and equal to the GVA of the whole of Wales[2].

COVID-19 has hit our district hard, impacting on retail, hospitality and domestic and international tourism, as well as keeping most of the 500,000 office workers away from the West End. Even before the second lockdown, footfall stalled at around 45% of 2019 levels and spending is only around 20%.

To create the conditions for a speedy recovery and growth once the virus is under control, we would urge you to:

- Relieve the disproportionate pressure caused by business rates on town and city centre retail and hospitality businesses by:
  - extending the business rates holiday in a targeted fashion to support city centre districts that depend on domestic and international tourism;
  - committing to fundamental reform of the business rates system, to make all business taxes fit for purpose in an increasingly digital 21st century economy.
- Support the fast-growing international visitor market by:
  - reversing your decision to end the VAT RES so that international visitors continue to visit and spend in the UK. Ending tax-free shopping will create structural damage to the West End economy which relies on international visitors for over 50% of retail sales;
  - supporting international visitor marketing programmes by VisitBritain and regional promotion agencies.
- Encourage investment in green initiatives by property owners and occupiers.

In normal times, the West End supports the UK economy directly through its economic activity and indirectly as a world-renowned draw for international investment, visitors, talent and students. We look forward to contributing to Britain's success as we leave the EU and overcome COVID-19. We urge you to consider these proposals to ensure that we are in the strongest possible condition to contribute to Britain's successful future.

Below is our <u>detailed</u> Autumn Statement Briefing Note for your consideration.

Yours sincerely

Sir Peter Rogers
CHAIRMAN

[1] Arup West End Good Growth Report
[2] Arup - West End GVA £53 bn, City GVA £47 bn, Wales GVA £54 bn

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Autumn Statement Briefing Note

New West End Company and London's West End

New West End Company is the Business Improvement District (BID) for London's core West End. We represent 600 retail, hospitality and property owner businesses in the largest of London's two International Centres, focused around the three main shopping streets of Bond Street, Oxford Street, Regent Street and also East Mayfair.

Over 150,000 people are employed in the retail and hospitality sectors within our district and annual turnover, pre-COVID-19 was around £10 billion.[3]

Retail and hospitality are key elements in the economic eco-system of the wider West End which includes theatre, culture, heritage and substantial office based commercial activity. Together they employ over 650,000 people (10% of all working Londoners) and produce a GVA of £53 billion, more than the City of London and as much as the whole of Wales. Before COVID-19, the West End was a major net contributor of tax to the Treasury.[4]

The West End is one of Britain's global strengths, attracting visitors, investors and talent from around the world. The unique eco-system of world class shopping, dining, hotels, theatre and other cultural assets has a direct impact on Britain's economy and is also a major contributor to the soft power pull of London and the wider UK.

Current economic environment – COVID-19

The COVID-19 pandemic has exacerbated an already overwhelming case for fundamental reform of the business rates system as high street businesses, who account for a disproportionately large element of the business rates, are struggling with the short term impact and the, as yet unknown, long term structural changes. Retail accounts for 6% of the UK's GDP but is responsible for raising 26% of all business rates. [5]

Already the business rates system was proving unfit for purpose, with its growing number of reliefs acting as short-term fixes to cover distortions caused by the heavy reliance on a property-based tax system to raise funds from businesses to help finance local government services. The growth of online businesses, many competing with, and some complementing, high street businesses but using little and low value property, means that this form of taxation is not fit for purpose in an increasingly digital, 21st century economy.

In the short term, the dramatic decline in visitor numbers and the inability of certain elements of the West End economy (such as theatres and night life) to operate under social distancing rules is threatening to breakdown this eco-system and damage this valuable global asset, just as Britain leaves the EU and seeks an independent path in the world. It threatens the net tax take that the West End has consistently delivered.

Of particular importance to the UK economy is the West End's draw to international visitors. Almost half of the £10 billion annual spend in the West End is from overseas travellers. This is a direct £5 billion injection of foreign money into the economy, with all the tax and employment benefits that brings. This is now lost as the temporary suspension of international travel, particularly from high spending states, means that for at least 12 months there is little chance of it being restored. Until there is a return of international visitors West End retail, hospitality and leisure will find it impossible to generate revenue and therefore investment into their physical assets, people and services.

[3] NWEC sales data
[4] Arup West End Good Growth Strategy
[5] British Retail Consortium

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This dramatic loss of income is exacerbated by the halt of most domestic tourism and the low number of office workers returning. In London, office worker return is around 30% compared with over 80% in Paris and Berlin. In the West End only 10%-15% of office workers have returned. The passenger capacity on the tube is only around 30% of normal, way below the level that the West End needs to function properly.

Footfall in the West End has plateaued at around 45% of its former levels, compared with around 75% across the UK. The average transaction value has plummeted as high net worth individuals are not yet travelling to the UK. In some cases, three-month advance hotel reservations levels, usually at 80% at this time of year, are now as low as 7%.

The second, November lockdown has stalled any minor recovery and, coming at the start of the key Christmas season, is a major blow to business. We estimate that around £2 billion in sales will be lost during this month-long lockdown.

As a result, we are predicting a fall in annual turnover of West End retail and hospitality of between 70%-80%, with sales of just £2-3 billion in the 12 months from March 2020. We expect around one third of West End retail jobs to be lost (around 50,000 jobs). There could be many more in the hospitality and cultural sectors that also depend on tourism and business hospitality to thrive or indeed to survive.

<u>Proposal 1 - Relieve the disproportionate pressure caused by business rates on town and city centre retail and hospitality businesses</u>

In 2017, the implementation of the 2015 revaluation resulted in West End rate bills rising by an average 80%. Even before the impact of COVID-19, this rise demonstrated the breaking of the link between this tax and business performance. The change in notional rents in the years between the 2008 and 2015 revaluations resulted in this 80% rate rise, sales rose by just 30%.[6] But with the collapse of sales due to COVID-19, particularly in city centres, the business rates system is clearly not fit for purpose. We suggest that Government address this in both the immediate short term and through longer term reform.

The West End competes in a global market to attract retail, hospitality, entertainment and cultural occupiers. The West End has some of the highest occupancy costs in Europe and the greater reliance by Britain on property taxation makes it difficult to compete, particularly as we leave the EU.

Westminster City Council raised over £2.2 billion in business rates annually, accounting for 25% of the total raised in London. Around half of that is raised in the West End. For every pound raised in Westminster, 96p is retained by the Treasury for redistribution through the Government system of grants.[7]

Element 1 - extend the business rates holiday in a targeted fashion to support city centre districts that depend on domestic and international tourism

The business rates holiday for retail, leisure and hospitality businesses announced by the Chancellor was welcome, temporarily removing a major cost for businesses. We appreciate that the measure was introduced at speed and as a result included a large number of businesses and cost the Government up to £10 billion in lost revenue.

[6] NWEC sales data. 2008 sales were £4 bn and in 2015 sales were £6 bn
[7] Westminster City Council

The slow return of office workers and the lack of international and domestic tourists means that the West End is unlikely to start recovering until well into 2021. Furthermore, the Treasury's removal of the VAT RES scheme is a structural change that means the West End may never return to its previous trading level as international visitors do their shopping in other European cities, attracted by tax-free shopping.

The ending of the furlough scheme in March 2021 and the end of the business rates holiday will produce overwhelming costs for West End. With business rates at around £1 bn and income down to as little as £2 billion, business rates alone will be around 50% of income, which is totally unsustainable.

Professor Tony Travers of LSE has pointed out that business rates in the West End are now based on 2015 economic conditions when it is likely that West End retailers will be operating at between 10-20% of that level and hotels at between 0-10%.

As many tenants have renegotiated leases and rents with their landlords, business rate levels now have absolutely no link either to economic performance or to rental values in the West End and are now one of businesses' highest costs.

The Treasury wishes to be more targeted in its use of reliefs. We are aware that the BRC are proposing a 50% relief for retail, leisure and hospitality businesses nationally. While we support this, we do not believe that this will be enough to save West End businesses. We propose a targeted relief focussed on city centre retail, hospitality and leisure businesses, rather than a nation-wide business rates holiday.

Element 2 - committing to fundamental reform of the business rates system to make all business taxes fit for purpose in an increasingly digital 21st century economy

New West End company has made a submission to HMT's call for evidence for its fundamental review of business rates.

In short, the arguments for business rates, namely the certainty and the ease of collection are now no longer true for retail in particular. The change to on-line shopping is accelerating and town centres are bleeding as businesses fail. This is the time for a fundamental reform both to keep physical stores alive and keep the Treasury income buoyant.

Our response calls for a review of all major business taxes (e.g. business rates, corporation tax, national insurance and VAT) in light of the growing proportion of digital businesses within the economy. These taxes are not appropriate for many digital businesses who, although paying all the taxes due, still pay a disproportionately low level of tax because of their business models.

The existing suite of business taxes were designed before the advent of the digital economy and, we believe, are not fit for purpose in an increasingly digital, 21st century economy.

The need for Government to maximise tax revenue without hindering business growth requires a broadening of the tax base, not a progressive shrinking of it. We hope that HMT will take the opportunity for a fundamental review of business rates (and other business taxations) rather than marginal changes to a system that is clearly broken.

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Proposal 2 - Support the fast-growing international visitor market

The international visitor sector is vital for Britain's recovery, growth and for job creation, generating £28.4bn annually and employing 452,000 people all across the UK[8].

It has grown by an average 6% pa in the last 10 years[9], outstripping the growth of the wider economy.
Much of this growth is driven by Chinese visitors, already the world's top spending travellers[10], and with a huge potential for future expansion[11].

Shopping is the key motivator for Chinese visitors[12] and they are highly price-sensitive[13]. In 2019, Chinese visitors were just 5% of non-EU visitors to the UK[14] but accounted for 32% of all UK tax-free spending.

Chinese visitor numbers are forecast to grow by 300% by 2030[15] generating an additional £2.2 billion in tax-free sales annually[16] and creating 48,500 new jobs[17].

Cities such as Edinburgh and Manchester have opened direct flights to and from China and base much of their local growth strategy on increasing Chinese visitor numbers[18].

Tax-free shopping is also a major motivator for high spending Middle Eastern visitors, who account for 26% of UK tax-free shopping.[19]

Tax free shopping generates £3.5 bn sales annually[20]. It supports 70,000 retail jobs directly[21]. It also supports British manufacturers throughout the UK who use London as their international shop window[22].

[8] VisitBritain and ONS. Employment figures based on VisitBritain model for calculating tourist jobs supported by income.
[9] VisitBritain and ONS
[10] UNWTO Global Barometer. Chinese visitors are the World's largest travel spenders at $258 billion in 2018, nearly twice as much as the second biggest spenders (USA at $135 bn)
[11] China Outbound Tourism Research Institute
[12] VisitBritain "Market and Trade Profile China" November 2019 "going shopping is the number one activity which most Chinese visits will feature"
[13] Chinese elasticity is 3.4. When sterling fell by 18% following the Brexit referendum, Chinese spending increased by 79%
[14] Chinese visitor numbers to the UK grew from under 200,000 in 2012 to over 800,000 in 2019 (+400%). They are 5% of the 16 million non-EU visitors
[15] China Outbound Tourism Research Institute
[16] Based on current spending level of £1.1 bn (32% of all UK tax-free shopping)
[17] Based on BRC model for calculating retail jobs based on income
[18] Marketing Manchester and Edinburgh Tourism Action Group - China-Ready Initiative
[19] Global Blue data
[20] Based on HMRC refunds (£500 million) with refunds representing 75% of tax-free shopping sales
[21] Based on BRC model for calculating retail jobs based on income
[22] Eg Burberry, in the North East; Mulberry in the South West; Church's shoes in Northampton; Johnston of Elgin in the Scottish Highlands

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Element 1 - reverse the decision on VAT RES, so that international visitors continue to visit and spend in the UK

The Government has decided to end tax free shopping from January 1st, 2021 rather than extend the scheme to EU visitors.

The Government says that:

- extending the scheme to EU visitors will cost £900 million
- the average refund is not big enough to change visitor behaviour, both in choosing to visit the UK and on their level of spending when visiting, if tax-free shopping is removed.
- the scheme is focussed on London and does not support the regions.
- the USA doesn't have a national tax-free shopping system but still attracts visitors

Business believes that ending tax free shopping will have a negative impact on the UK economy and jobs.

Retail, tourism, travel and hospitality businesses across the UK, sectors already hardest hit by the COVID-19 pandemic, are united in their belief that ending tax-free shopping and airside tax free shopping will lead to:

- the Government's positioning of Global Britain, after leaving the EU, being undermined by becoming the only European country not to offer tax-free shopping.
- the cost of extending the scheme to the EU is far lower than HMT predicts.
- it's not the average refund that counts, it's the much larger refunds that attract high spending, price-sensitive international visitors who will either divert to other European destinations or spend less time and less money in the UK[23].
- 20,000 of the 70,000 retail jobs supported by tax free shopping being lost[24]; 5,000 airside jobs lost[25]; 15,000 manufacturing jobs across the UK lost[26].
- regional airports, some of which generate up to 50% of their income from retail operations, put at risk, losing vital regional infrastructure.
- many British brands manufacture in the regions and use London as their shop window.
- there is not national tax-free shopping in the USA because sales taxes are state taxes. Many tourist states offer tax-free shopping or have no or very low sales taxes[27]

Businesses believe that the Government has overestimated the cost of extending the scheme to EU visitors and underestimated the negative impact, across all the UK, of ending the scheme.

To encourage recovery, growth and job creation, the Government should reverse its decision to end the VAT RES and airside tax-free shopping.

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[23] International travellers visit an average 2.6 European countries per trip. 42% of tax-free shopping is done by just 13% of international visitors (Global Blue figures). These high spenders spend disproportionately more on other (taxed) goods and services which will be lost.
[24] Based on Cebr most conservative modelling, 28% of retail jobs directly related to tax free shopping
[25] Based on Airport Operators' Association estimates
[26] Based on Walpole estimate of up to 25% of 60,000 manufacturing jobs in relevant sectors.
[27] New York sales tax is less than half UK VAT. Florida has no sales tax, so shopping is tax free.

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Element 2 - support international visitor marketing programmes by VisitBritain and regional promotion agencies

AS international visitors start to return Government should provide additional support to public sector marketing agencies, such as VisitBritain, to allow Global Britain to compete with other popular visitor destinations.

We stress again, that ending tax-free shopping, a major motivator for choosing the Kk and for enhancing the level of spending by international visitors, will severely undermine the UK's promotion activities as Britain becomes the only European country not to offer tax-free shopping, putting Britain at a competitive disadvantage.

Proposal 3 - Encourage investment in green initiatives by property owners and occupiers

We welcome the Government's commitment to a net-zero carbon economy. We urge HMT to seek ways of encouraging businesses to adopt practices which contribute to this aim.

For example, business rates are a major tax for many businesses, particularly in high streets and town and city centres. This means that, as well as being a way of collecting tax revenue, they could be a vehicle for promoting policy priorities through targeted changes to the multiplier to promote positive behaviour change, in particular:

- businesses being encouraged to improve their environmental impact and path to zero carbon by for example reductions in the multiplier for those that meet certain standards i.e. energy rating from 'E to A' on Energy Performance Certificates or as an example a surcharge on diesel powered delivery vehicles;
- businesses being encouraged to invest in improvements in local public realm and transport by reductions in their multiplier;
- town and city centre revival being promoted by local reductions in the multiplier for certain business categories.