Monday, 31 March 2025

HIGH STREETS UK

Business Rates Reform: A consultation submission from High Streets UK

About High Streets UK

1. High Streets UK is a pro-growth, nationwide partnership of business representatives which aims to tackle the most pressing issues facing the UK's flagship high streets and unlock local and national growth.

2. Flagship high streets typically comprise premium destination venues, with an average size of 2 million square feet of commercial space, and a diverse range of offerings. Typically, only 40% of a flagship high streets is made up of retail stores, with the other 60% encompassing a mix of office, hospitality, leisure and entertainment facilities. They play a different role to smaller, local high streets which are typically focused on meeting the convenience shopping needs of consumers. Flagship high streets, in contrast, are more focused on comparison shopping or experience-led retail.

3. Across the country, high streets face a wide range of challenges - from the rise of retail crime and anti-social behaviour to an unwieldy business rates system and rigid planning laws. At the same time, the Government has clearly identified UK high streets as a vehicle to drive both national and local growth – and we believe that flagship high street destinations are perfectly placed to rise to the occasion.

4. Through quarterly summits, the group elevates shared priorities to a national conversation, while sharing learnings, ideas, and solutions to ensure flagship high streets across the UK thrive for years to come.

5. Founding members of High Streets UK include leading Business Improvement Districts from Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Liverpool, Leeds, London and Newcastle.

The need for business rates reform

6. High Streets UK welcomes the fact that this Government has kicked off a conversation on how to reform business rates. The creation of a fairer business rates system is something which has been repeatedly promised and much-delayed in the past.

7. High street businesses have borne the brunt of the business rates burden for many years. The UK raises twice as much revenue from property taxes as the OECD average[1], and the 54.6% levy on commercial property means that those businesses with a large property footprint – such as restaurants or in-person retail – face a far higher effective tax rate than competitors which operate primarily online. Retail and hospitality pay over one third of all business rates,

[1] OECD (2021) *Tax on property*. Available at: http://bit.ly/41yz1AA

according to the BRC.[2] These dynamics have been widely recognised as contributing to the ongoing challenges faced by British high streets.

8. The Government has recognised these challenges in bringing forward this proposed reform. The press release that accompanied the launch of the Government's white paper said that "high streets across the UK will benefit from business rates for retail, hospitality and leisure properties being permanently cut for the first time", and said the move was part of the Government's commitment to "help the high street."[3]

9. However, we are concerned that the way in which this reform has been designed will have unintended consequences, hitting businesses in flagship high street locations in city centres with even higher rates bills than they currently face. This could lead to impacts on employment and prices, and potentially put stores at risk of closure.

Flaws in the Government's proposed policy design and unintended consequences

10. As part of its plans, Government has laid out that it would cut rates for retail, hospitality and leisure businesses with a rateable value of under £500,000. In order to fund this, it would introduce a higher multiplier band for businesses with a rateable value of over £500,000. Legislation introduced to Parliament to give effect to this change provides for that higher rate to be set at up to 10p higher than the standard rate (although the final level at which the higher rate is set in any given year would be determined by Chancellors at Budgets).

11. In considering the impact of this change on flagship high streets, High Streets UK carried out research and analysis of affected (and likely affected) commercial properties across the flagship high street locations represented by the group: in Aberdeen, Birmingham, Bristol, Cardiff, Edinburgh, Liverpool, Leeds, London and Newcastle.

12. The analysis was carried out by the Director of Insights and Strategy at New West End Company, one of High Streets UK's founding members. One part of the research involved an anonymous survey of 115 retail, hospitality and leisure businesses. These businesses were asked about the most pressing issues they face – from tax burdens like businesses rates to online competitors and crime – as well as how many trading units they operated, of which the average was 37 units at an average size of 15,000 sq. ft.

13. The survey was complemented by financial modelling with a smaller group of retailers to understand the local level financial impact of operating a store in a flagship high street locations, and the impact rates increases would have on the viability of those stores.

---

[2] BRC (2024) *High streets paying over one third of all business rates*. Available at: https://bit.ly/4iNDdn6

[3] UK Government (2024) Next steps set out to permanently cut business rates for the high street. Available at: https://bit.ly/3DMYUEN

14. The research found that the Government's proposed higher rate multiplier on properties with a rateable value of over £500,000 would disproportionately hit businesses in flagship, city centre destinations. In fact, our analysis shows that businesses in flagship high street locations – from Birmingham and Bristol to Leeds and London – are 5.1 times more likely to be subject to the higher rate multiplier than anywhere else in the UK.

15. Crucially, we found that shifting the rates burden to businesses located on flagship high streets would have unintended consequences. Our survey revealed that the majority of businesses set to be impacted by the new higher multiplier (69%) will seek to manage costs by reviewing staffing requirements – threatening up to 5,500 jobs in these flagship high street locations. 64% of those impacted businesses will consider passing on the additional costs to consumers, with our financial modelling work suggesting that prices would need to rise by around 3% to offset the increased tax burden.

16. A third of affected businesses are considering reviewing their investment strategies in the UK (34%) or closing certain locations (31%) as a result. In the flagship high street locations analysed, this could put up to 600 trading units at risk, with over 200 potentially facing permanent closure.

17. The analysis conducted by High Streets UK *only* looked at the impact of the new 'super tax' higher multiplier on properties in the flagship high street locations it represents (listed above) and which are likely to be over the £500,000 rateable value post-2026 revaluation. This means that the national impact of the 'super tax' on jobs and unit closures is likely to be far higher than we have laid out above; research from the Retail Jobs Alliance group, for instance, puts the retail job losses at 300,000 by 2028. [4] This underlines the need for the Government to undertake a comprehensive impact assessment of the proposed rates increase.

Mitigating the worst impacts of reform for flagship high streets

18. We support the basic principle behind the Government's proposed reform - that smaller retail, leisure and hospitality businesses need a permanent reduction in rates, following the end of temporary reliefs in 2026/2027. We are cognisant, too, that these reforms are being pursued in a challenging fiscal environment and recognise the Government's desire to ensure that the reforms are fiscally neutral.

19. But as a collective voice for the nation's flagship high streets, we emphasise the need for Government to take action to mitigate the worst effects of these proposed reforms on flagship high streets, and to secure jobs, investment, and growth long into the future. We are calling on the Government to:

[4] Retail Jobs Alliance, http://bit.ly/3FFtb9g

a. **Produce a comprehensive, long-term impact assessment of proposed multiplier increases**, including how this could affect job growth and future investment.

    i. This assessment should also consider the addition of commercial properties which are not currently captured by the existing rates system e.g. large student accommodation developments.

b. **Exempt <u>all</u> Retail, Leisure and Hospitality properties** from the new 'super tax' higher multiplier

    i. This measure would support the UK's high streets – in line with the Government's commitment to protect high streets – by preventing excessive cost burdens on high-value businesses that are central to local economies and employment.

c. **Fix the multipliers immediately**, rather than increasing them annually in line with CPI**.** This would provide greater certainty to businesses between revaluations.

    i. This would require the Government to remove the principle of revenue neutrality, which does not apply to other tax bases.

d. **Freeze any increase in the higher multiplier until 2027/28, after the 2026 revaluation,** to allow businesses ample time to prepare for increases in rates liability.

    i. Increase the higher rate multiplier threshold at the point of the 2026 revaluation, in order to avoid fiscal drag.

e. **Retain a portion of locally collected rates and ring-fence it for investment in the corresponding flagship high street area**, so those who pay the highest rates see a positive impact on services on their doorstep.

f. **Extend Empty Property Relief from 3 months to 6 months**, followed by a 50% discount thereafter.

    i. This would bring the relief more in line with the average time it takes for most retail units to find a new occupier (12-18 months, according to the British Property Association), and thereby encourage property owners to divert the capital otherwise spent on business rates liabilities into upgrading their properties.
    ii. This relief should also be extended to listed buildings, of which there are a significant proportion in flagship high street locations.

g. **Build in transitional relief** for businesses that would be required to pay the higher multiplier post the 2026 revaluation.

20. It is imperative that the Government takes action to ensure that jobs, investment, and growth are not unintentionally jeopardised by the proposed business rates reform. We believe that the mitigations outlined above would provide businesses with increased clarity, predictability and, ultimately, create a fairer system.

For more information contact:

Nathan Parsad-Wyatt
Director of Communications and Campaigns, New West End Company
nathan.parsad-wyatt@newwestend.com | +44 (0)7707 291 709

Lorna Keegan
Head of Corporate Communications and External Affairs, New West End Company
lorna.keegan@newwestend.com | +44 (0)7513 830 318