Written evidence submitted by New West End Company and the Brompton Road Partnership

1. The International Centres

1.1 New West End Company and the Brompton Road Partnership represent businesses in the two International Centres designated in the London Plan (The West End and Knightsbridge).

1.2 New West End Company is the Business Improvement District for London's West End, with over 600 retail, hospitality and property companies as members in a district which incorporates Oxford Street, Bond Street and Regent Street.

1.3 The Brompton Road Partnership is a new voluntary group of businesses in the Knightsbridge International Centre.

2. The importance of the West End to the UK economy

2.1 The West End is one of the engines of the British economy. In normal times the six square miles of the West End generates £51 billion GVA, more than the City of London and as much as the whole of Wales. Ten percent of all Londoners are employed in the West End and Westminster businesses alone provide over 25% of all London's business rates. In 2019 there where over 200 million visits to the West End. A thriving West End creates and supports supply-chain businesses and employment throughout the whole of the UK.

2.2 The West End is one of the world's top shopping districts. Its unique concentration of world class shops, theatres, restaurants, cultural venues and heritage, unmatched worldwide, is at the heart of Britain's international standing. As such, the West End is a major attraction for international investors, talent, businesses, visitors and students and will be a vital player in the success of Britain's post-EU future.

3. The impact of COVID-19 on the West End

3.1 COVID-19 has devastated the West End, more than any other part of the of the UK. Visitor numbers have plummeted, not even reaching 50% of normal levels during the 2020 re-openings as West End and City office employees stayed at home and international and domestic visitor numbers fell to near zero. This lack of visitors and the frequent lockdowns have left West End businesses shattered. Theatres, shops and restaurants are finding it hard to survive. We estimate that the International Centre's turnover in the 12 months from March 2020 will fall by over 80%, from £10bn in 2019 to under £2bn. Landlords have been hit by low levels of rent payments and closures, putting pressure on covenants. The globally unique West End ecosystem is beginning to break down with all the knock-on impact this will have on Britain's economic recovery and wellbeing.

3.2 And the Government's decision to end tax free shopping, wiping around £1 billion annually off future West End sales, 10% of total sales, has ended hope for many businesses that the level of international spending will quickly rebound to pre-pandemic levels.

3.3 We are already seeing the impact of all this. Our new research on confirmed and potential store closures on Oxford Street, the heart of the West End and the nation's high street, shows that to date there are 57 units permanently closed, out of a total of 264, with more planned. It is truly shocking that, as COVID-19 restrictions are lifted, over 20% of Oxford Street will be boarded up with no hope of recovery in the foreseeable future. This will damage the whole of the West End, London and the UK more widely. We know that other major West End streets are suffering similarly.

3.4 We estimate that over 50,000 retail and hospitality jobs will be lost in the West End by March 2021.

3.5 Historically, the West End has helped lead our country out of recession, working in partnership with our suppliers UK-wide. West End businesses are robust and resourceful and have seldom needed nor sought Government help. But the unique circumstances of the pandemic, and its impact on key West End businesses and visitor sectors, means that this time we will need additional temporary support to get us back into the position where we are again a major net contributor to the Treasury funds and a driver of the UK's economy worldwide. Left to market forces alone, the West End will recover but not for many years and not before irreparable damage will have been done to Britain's global reputation.

3.6 We are working with Westminster City Council, the Mayor and Ministers throughout Government to ensure the fastest possible recovery and the strongest possible growth to create jobs and prosperity for Britain's future.

4. <u>Impact of COVID-19 on Knightsbridge</u>

4.1 The Brompton Road Partnership is newly formed and does not yet have the same amount of data as the West End. However, the Partnership has commissioned a Strategic Vision Study from Arup (available on request) which highlights the importance of high-end luxury shopping in the International Centre, driven by high spending overseas visitors.

4.2 COVID-19 has therefore had a dramatic impact on visitor numbers and sales, more so than other UK high streets. Similarly, the impact of the Government's ending of tax-free shopping is unnecessarily damaging to businesses and jobs in the Knightsbridge International Centre.

5. <u>Evidence sought by the Committee.</u>

5.1 We would like to raise two points in response to the Committee's first question "*To what extent do Government measures protect viable jobs in the future and reduce the risk of long-term unemployment?"*

5.2 In March 2020 the Government moved quickly and generously to support businesses, particularly with the business rates holiday and furlough scheme. We agree with the Chancellor that supporting jobs and businesses now will ensure that there is the strongest possible base on which to build the recovery once COVID-19 is under control.

5.3 However, the pandemic has lasted far longer than many expected. The Chancellor has responded to this by extending certain elements of business and job support, in particular the furlough scheme. There is no question that this has enabled companies to survive months without significant revenue and protect jobs that are visible in the long term.

5.4 With the vaccine programme giving hope that the economy can start to return to normal in the latter half of 2021 there are two key points that we would like to make to the Committee.

<u>The Government needs to secure its investment in the UK's economic future.</u>

5.5 The Government has invested billions of pounds into the economy to secure a base from which to start the economy. But the reopening of the economy will not lead to an instant return to life before COVID-19. We do not expect our district to reach its £10 bn 2019 turnover until 2024 at the earliest. Office workers are likely to return slowly as will domestic and, only later, international visitors.

5.6 At the end of March 2021, as we hope that restrictions will slowly start to be lifted, retail and hospitality business will face a triple whammy of costs as the business rates holiday ends, the furlough scheme finishes and the moratorium on commercial landlords evicting tenants for non-payment of rent is lifted.

5.7 Separately and together, these will introduce a whole new raft of costs at a time when business cash reserves are low or non-existent and revenue will not yet have started to pick-up. Any resulting closures and redundancies will wipe out the Treasury's investments since March 2020.

5.8 That is why New West End Company is seeking an extension of the business rates holiday for at least 6 months but this time more targeted on sectors and geographical areas which will be the slowest to start their recovery.

5.9 We also support calls to extend the furlough scheme, but again in a more targeted form, possibly more flexible to allow part-time re-employment which can grow as the local economy starts to recover and tapering in its withdrawal.

<u>At the same time as investing in protecting viable jobs, the Government is introducing measures that are already resulting in the loss of extremely viable jobs and are damaging both recovery and long-term growth.</u>

5.10 The Treasury's decision to end tax free shopping (VAT RES) will cost the West End around £1bn in direct lost retail sales each year (10% of total 2019 sales), based on OBR estimates, and more in lost sales of other goods and services as high spending international visitors spend less time and less money in the UK.

5.11 The OBR stated, in its November 2020 Economic and Fiscal Outlook, that the Treasury's initial assumption of zero price elasticity on VAT RES sales was wrong. The OBR have used a price elasticity of 1.9.[1] The OBR therefore estimated that, when spending returns to 2019 levels, sales will fall by 38% as a direct result of the Chancellor's new 20% tax. Based on HMRC's estimate of £3bn tax free sales in 2019, this will reduce the value of these sales by £1.14 bn annually, and cut HMT's forecast VAT-take from £500m to around £300m.[2]

5.12 However, the £3bn tax-free shopping is only a small part of the expenditure of non-EU international visitors who, according to the ONS, in 2019 spent an additional £15bn on other goods and services, raising £3bn in VAT for the Treasury.

[1] Experience shows that for Chinese visitors (who make-up over one third of all tax-free shopping) the actual price elasticity is over 3. Combined with the OBR estimate, this would mean a fall in total sales of around £1.5 bn annually, based on 2019 sales figures.

[2] Note – Treasury Ministers have reported to Parliament that the OBR estimates a £400m VAT take. It does not. It estimates £300m for 2022-23, when it forecasts sales will return to 2019 levels. The OBR estimate rises to £400m in *subsequent* years but this assumes a 25% annual increase in sales when, over the past 10 years, the average annual increase has been just 6%. The future £400m estimate, at a time post-COVID and once the attraction of tax-free shopping has been removed, is unrealistic.

5.13 We believe that, as international travel returns, a proportion of visitors, particularly high spenders from China and the Middle East, will make fewer and shorter trips to the UK, diverting much of their spending to other European competitor cities, such as Paris or Milan which continue to offer tax-free shopping. This will result in less spending on these VAT-able goods and services (e.g. hotel nights, meals, travel, cultural visits). A reduction in spending of just 10% on these goods and services will eliminate any VAT raised through ending tax-free shopping and anything over that will actually cost HMT millions of pounds in net lost VAT each year.

5.14 HMT has not produced any figures on the estimated net impact, presumably because, by initially assuming an unrealistic price elasticity of zero, it did not predict any change in spending patterns. But, as the OBR has pointed out, this was a wrong assumption. The OBR told the Treasury Select Committee (November 26th 2020) that it itself had not taken account of the likely loss of associated sales and had therefore only shown the gross forecast, not estimated the net impact on the level of VAT taken or lost. This net impact has never been shown. We strongly believe that ending tax free shopping will cost the Treasury hundreds of millions of pounds in net lost VAT each year.

5.15 The OBR gave this policy its highest possible level of uncertainty and told the Treasury Select Committee that it had no confidence in any of HMT's figures. The Chair of the Treasury Select Committee subsequently wrote to the Chancellor requesting a comprehensive independent evaluation of the full impact of this policy.

5.16 The OBR was not remitted to examine HMT's calculations on extending the scheme to EU visitors, but based on actual 2019 spending levels, this would be around £60m annually, which would most likely be more than compensated by additional tourist numbers and spending on VAT-able items. HMT has never sought this sales data from business and failed to include it as a factor in its erroneous estimate of the likely cost of extending the scheme.[3]

5.17 We therefore support the Treasury Select Committee in its call for an independent assessment to be undertaken and published to test the robustness of HMT's case, particularly given -

- that the key figures used by HMT to make this decision have been proved to be wrong by the OBR
- that the OBR has shown that HMT overestimated the level of VAT that would be raised by 166% (£500 million instead of the OBR's £300 million)
- that HMT has not taken account of the loss of VAT from the decline in associated sales
- the resulting high probability of a net loss of VAT revenue for the Treasury at a time when it needs to be maximising tax take
- the OBR's publicly stated lack of confidence in HMT's figures and the errors it has highlighted
- the impact on the West End International Centre of £1 billion of additional lost sales on top of the COVID-19 damage

[3] HMT estimates that the cost of extending the VAT RES to EU visitors would be £900 million annually in lost VAT. But actual sales data for 2019 shows that the total level of spending by EU visitors on eligible goods was just £300 million, yielding a VAT revenue of £60 million, producing an error by HMT of an astonishing 1,500%!

- the estimated 20,000 retail redundancies and 15,000 manufacturing jobs lost across the UK, based on the OBR forecast of a £1.14 billion fall in retail spending, over and above COVID-19 losses, at a time when the Chancellor is spending billions on supporting jobs
- the loss of associated sales and jobs as a result of becoming the only country in Europe not to offer tax-free shopping.

5.18 We would be happy to support a short inquiry by the Select Committee into this issue should HMT fail to respond positively to the Chairman of the Committee.

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