Treasury Select Committee: Inquiry: Economic Impact of Coronavirus

About the Heart of London Business Alliance

Since 2001 Heart of London Business Alliance (HOLBA) has been cementing London's position as the world's leading cultural destination by working on behalf of over 500 businesses and 100 property owners in the Leicester Square & Piccadilly Circus and Piccadilly & St James's and St Martin's areas of the West End. We ensure the commercial and cultural wellbeing of the area and under normal times host over 45,000 employees, providing roughly 1,180 jobs per hectare, with an **economic contribution of £4.6bn GVA** including an immeasurable cultural contribution to London and the whole country.

We appreciate the opportunity to participate in this inquiry. We are regularly receiving feedback from our members on the Coronavirus pandemic and the Government's policy response. As this is an evolving issue, please find below a snapshot of responses to some of your questions.

1. **To what extent do Government measures protect viable jobs in the future and reduce the risk of long-term unemployment?**

The measures the Government have put in place to protect jobs and the economy are welcome, and it is to the Government's credit that they acknowledge certain jobs are viable in the future, but not currently, and they therefore need protecting. There are, however, three problems we foresee.

First, as we will discuss in greater detail later in this response – HOLBA's businesses have unanimously said that business support does not match the realities of doing business in Central London, in particular the high overheads due to rent and salaries. For instance, the maximum discretionary grant is capped at £9,000 for businesses with a rateable value of £51,000 and above, yet many of HOLBA's businesses have an average rateable of £600k: one such business (who pays £260,000 a month in rent) told us that the discretionary grant would barely be enough to cover one week's insurance.

Second, in many cases high street businesses have not been the end recipients of this support: as one of our members stated, "CBILS loans simply help to pay the rents to landlords which in turn then helps to pay their debts, interest and amortisation, but the business at the front end is the one left with the extra debt and burden".

Third, there is a real risk that all this work might be undone if the Government does not give businesses sufficient support in the coming months – both while lockdown measures and tiered restrictions are still in place, and in the transitional period where businesses can open but a combination of diminished footfall and social distancing measures mean that they struggle to be cover costs. Currently, businesses do not feel they have that assurance: as a case in point, **we are facing a cliff edge at the end of March where the business rates holiday, VAT cuts and rent moratorium end, in addition Government loans need to be paid back and the job retention scheme ends in April.** This is a serious and existential worry to businesses who are well aware that some form of Covid restrictions will continue until significantly later in the year. One of our member business said "If we can't open fully soon, then we need a significant increase in support"; another landmark West End business added that "until capacity is back to original then it is not viable to reopen without financial support".

Government should make its announcements about future business support as soon as possible – it is unrealistic to expect businesses to wait till March to formulate their business plans for April onwards.

2. To what extent are Government measures value for money for the taxpayer?

Precise value for money considerations are difficult to calculate at present, because the crisis is still ongoing, and our members' opinions vary on this point. However, there is unanimous agreement that Central London has, in normal times, a unique ecosystem where culture, hospitality, retail and business combine to form a city centre that is greater than the sum of its parts. This agglomeration effect is one of the factors that makes London so successful and such a draw to international tourists and investors. The GVA of London's Central Activity Zone is estimated to be £211bn in normal times. Under the pandemic, that strength becomes a liability: should one sector collapse it would take much additional value with it. That means that value for money should not simply take into consideration the counterfactual of loss of business turnover or jobs within that business – the risks of widespread business failure are much greater.

3. How effective is the Government support to businesses and individuals across different regions and sectors? Does the effectiveness of the Government support vary across different regions?

Central London has been hit disproportionally hard by the Covid-19 pandemic, even in respect to other international cities. Even when businesses were allowed to open, the combination of workers staying at home and the sharp decline in national and international tourism meant that those businesses struggled to turn a profit.

They are now under the third lockdown in just under a year. In the Christmas season alone, it is estimated that spend in the West End fell from £2.5bn in 2019 to just £500m. Many businesses fear normality will not return in 2021. These dynamic businesses and central London's rich culture and experiences are not merely job creators: they are critical to the UK's global competitiveness. One of our members noted that we should not "ignore London's contribution to the health of the UK economy".

The support the Treasury has given (though welcome) does not meet the realities of doing business in Central London. Businesses face significantly higher costs of rent, business rates and wages in London than elsewhere in the UK. Given overheads are higher, the gap between business needs and Government support is greater than elsewhere in the UK. Boroughs like the City of Westminster have much higher costs of living and running a business than elsewhere.

The disproportionate hit to London is exemplified by the discretionary grant, which until a few short weeks ago was based on a formula of £20 per head of the local population — rather than the number of businesses in an area. London has a high number of businesses compared with many other parts of the country, so the average funding per business was as low as £8.09 in the City of London, compared with an average of £485.85 for the UK. The latest business support was a step in the right direction, however the rateable values it is based on is insufficient for central London business as stated earlier.

Respondents to a recent business and property owner survey on this issue additionally pointed out that freelancers have been particularly badly hit. These are the freelancers that are vital to recovery of the hospitality and cultural sectors.

4. What impact will a second lockdown have on the economy? How should the Government best support the economy if intermittent lockdowns become a feature over the next year?

We now find ourselves in the third national lockdown in under a year. HOLBA members both businesses and property owners recognise the vital importance of national lockdowns in combating the COVID-19 health emergency, but the economic reality facing businesses in the West End is extremely challenging. After almost a year battling the pandemic, resources have been drained and business resilience is at an all-time low. In a recent survey of our HOLBA members, **72% of respondents were not optimistic their businesses would recover at all in the next three months** and only half were optimistic of a recovery within the next year.

Added to this, businesses face a cliff edge in the spring, with business rate reliefs, rent moratorium, VAT cuts and the job support scheme all scheduled to stop in either March or April as well as the commencement of paying back Government loans. Firms are having to make tough decisions in the coming weeks; they will not wait until the Budget in March and need clarity as soon as possible. This is why the Government must act ahead of the Budget to announce the measures that will help businesses survive until the economy reopens later this year. Extension of the VAT and business rate relief periods would show that the Government understands that London's economy will not fully recover until the vaccination rollout is complete and London's tourism and global economy are back on their feet.

Clear communication around infection rates, testing, and the vaccine rollout will also be crucial for businesses, who need clarity in order to plan effectively. A clear tenet of Government support lies in communicating plans, priorities, and timeframes effectively to business. Business are in a need of a roadmap out of this crisis and into recovery.

In the eventuality that despite the vaccine rollout we see continuing lockdowns, government should provide certainty that support will be provided for as long as businesses remain closed or unable to operate normally, either due to a tiered system or other social distancing measures being in place.

Specifically, under the current lockdown, businesses need:

- A commitment to the **continuation of the Job Retention Scheme** to the end of June and then a further commitment to targeted support thereafter to avoid a cliff-edge for business
- Removal of the March cliff-edge of business rates relief and extension of the business rates holiday until at least March 2022
- The **removal of the cap on discretionary grants**, or a bespoke CAZ fund which better reflects the high costs of doing business in London
- Extend the repayment period for existing VAT deferrals from 2020 and provide further deferrals for VAT due to be paid to HMRC over the next three months
- An **exit strategy from Government to outline how landlords and tenants are meant to transition back to normal rental market conditions.** The extension of the rent moratorium until the end of March will simply mean growing the volume of rent arrears for many businesses, which is not a viable solution if their debt is already at unsustainable levels.
- Commitment to the **publication of a roadmap** out of lockdown alongside business support measures

5. What changes to the economy are now permanent?

- What difference will the discovery of a vaccine and/or treatment make?
- Will behavioural changes such as working from home necessitate structural changes, whether or not a vaccine is discovered?

The discovery of a vaccine means that there is light at the end of the tunnel. This is evidently good news, but we need to be realistic about the near future. The rollout of the vaccine to the entire population will not be immediate, and nor will restrictions be lifted all at once. And there are continued risks relating to the possibility of new strains developing. It therefore remains likely that businesses will be impaired, and consequently require continued support, well into the year.

Over the longer term, it is likely that there will be long-term changes to the way people work. Many of our members believe, for instance, that working from home is here to stay. Public policy should reflect this – for instance, Government should be working with train companies and TfL to look at flexible season ticketing so that people can come in at least some of the time. Longer term, as one HMBA member expressed it, "Working from home is here to stay - so London needs tourists more than ever." To bring these tourists in, London needs to make sure its offer is as attractive as possible – and, through a global marketing campaign, shout it from the rooftops.

In general it would be wrong to see Central London as a museum exhibit. We cannot expect things to stay the same and we cannot be rooted in the past. This means we should be creative and innovative about how we use our streets: business usage does change over time but what matters is that we remain open, vibrant and attractive to visitors. We all recognise there is the opportunity to develop new uses for vacant units and public realm space for the next 2-3 years that will directly contribute to the recovery of the West End economy benefiting residents, property owners, occupiers and workers.

However, there are a number of established strengths which we should continue to play to. Whatever else changes, human interaction will continue to matter. As shown by a paper for the Centre for Economic Performance, the effect of Covid on the social lives of city dwellers – being able to meet in hospitality and cultural institutions – may be more relevant for the future of cities than its impact on work and productivity. The paper states that quality of life and mobility within the city is likely to be the key determinant of where people choose to live, not productivity. They also find that the quality of life impact of a permanent reduction in social interaction could be very large, particularly in cities. So we should continue to support sectors such as culture and hospitality because they are such an essential part of what makes London a true world city.