

# Analysis of the impact of business rates revaluation on grassroots music venues in London

Prepared for:  
Mayor of London

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# Key findings

- Business rates for London's grassroots music venues (GMVs) are projected to increase 26% from £3.21m to £4.06m after April 2017
- 30% of GMVs will see their annual business rates increase by £10k or more
- Approximately one-half of GMVs will have to increase their ticket/beverage prices by 1.9% or more just to cover their higher business rates bill; prices will need to increase by an additional 2.2% to account for inflation (wages, rent, etc.).
- Approximately half of GMVs in London are unlikely to be able to pass on the increase directly to customers.
- 21 (out of 94) GMVs are at risk of closure due to business rates revaluation. These GMVs account for 183 full-time equivalents (FTEs) of employment and £7.1m in gross value added (GVA)
- Another 23 GMVs are at risk of converting to more commercially oriented programming in order to stay economically viable
- Added together, the annual number of emerging artist performance opportunities that are at risk is at least 14,000 and could be much higher. This lost of opportunities for new talent to emerge will have a significant knock-on effect for the UK music industry.

# Summary

## What does business rate reform mean to GMVs?

- London **GMVs' business rates** to increase from **£3.21m** to **£4.06m**
- **One-half** of GMVs will have to **increase their ticket/beverage prices by 1.9% or more** just to cover their higher business rates bill. **To cover all cost increases** (e.g. wages, rent), they will have to raise prices by **4.1% or more**
- **One-half of GMVs** in London are unlikely to be able to pass on the increase directly to customers

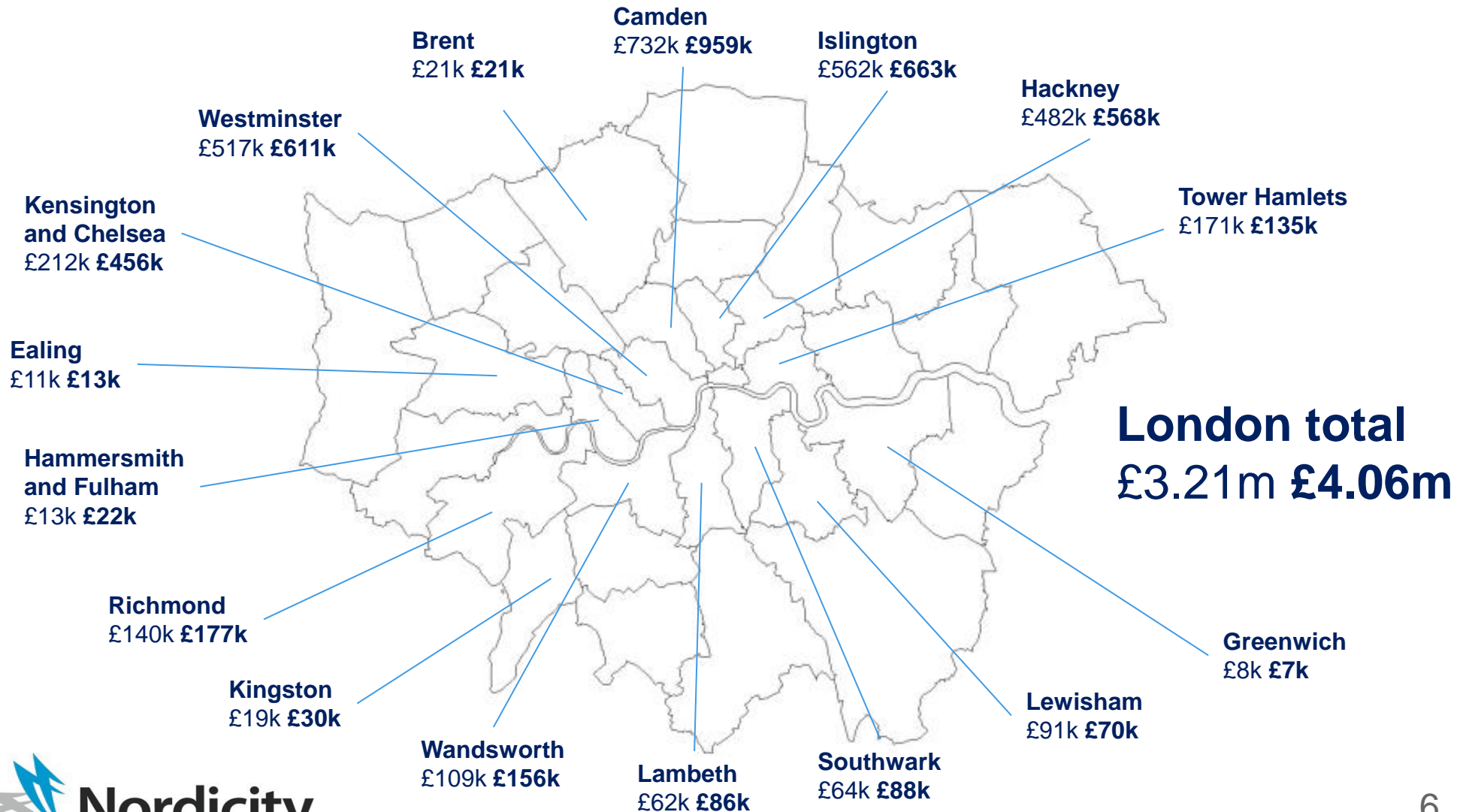
# Summary

## What is at risk with closure of GMVs?

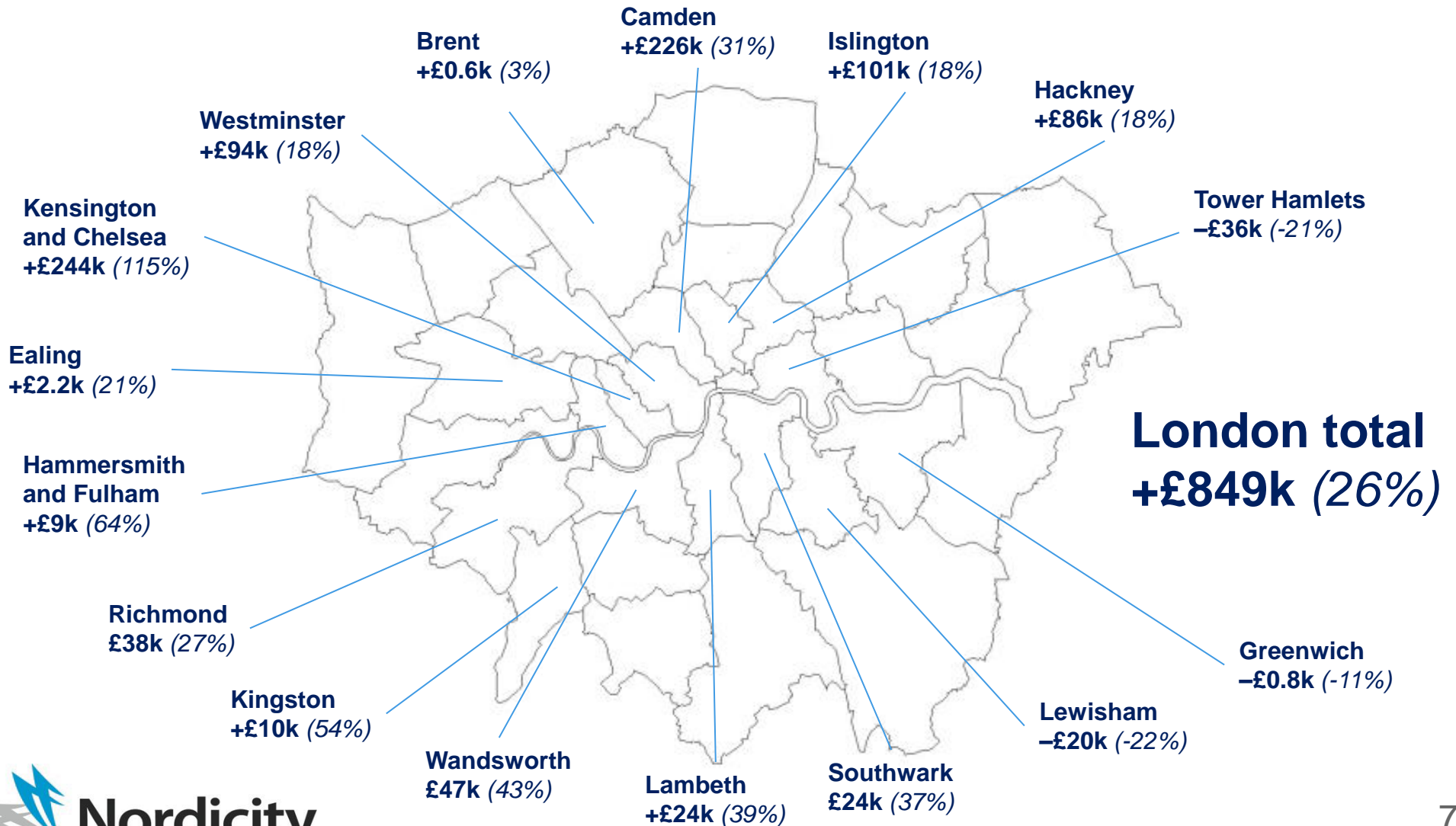
- **21 of London's 94 GMVs** are at high risk of closure due to business rates increases (“high risk group”).
- These GMVs account for **183 FTEs** and **£7.4m** in **GVA**.
- A further **18 GMVs** are expected to experience significant financial challenges (“medium risk group”).
- These GMVs account for **347 FTEs** and **£14.1m** in **GVA**.
- Another **23 GMVs** are at risk of having to cut the number of new artists they programme, opting to put on safer, established artists that generate higher sales (“talent risk group”).
- Together, these GMVs account for at least **14,000 emerging-artist performance opportunities** annually at risk, and have a knock-on effect for the music industry as a whole, while reducing the opportunities for new and emerging talent in London. This conservative figure is based on one emerging artist performing at each of the at risk grassroots music venues per night.

# Impact of business rates revaluation by London borough

# Aggregated business rates for grassroots music venues per borough. Comparison of 2016/17 and 2017/18 rates



# Change in aggregated business rates for grassroots music venues per borough



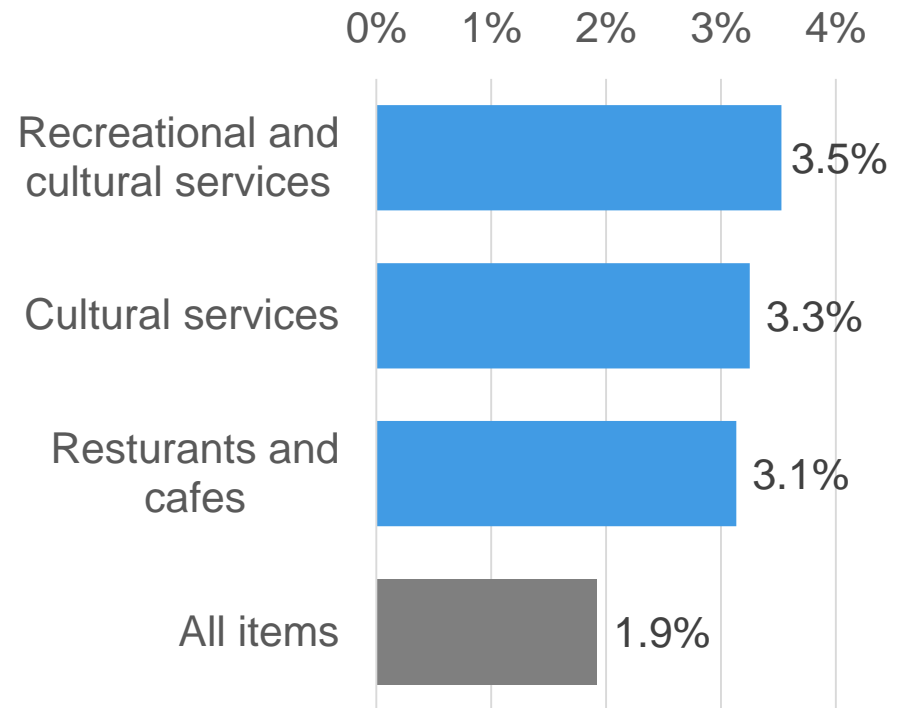
# Analysis of business rates revaluation on London's GMVs



# Pricing power of GMVs

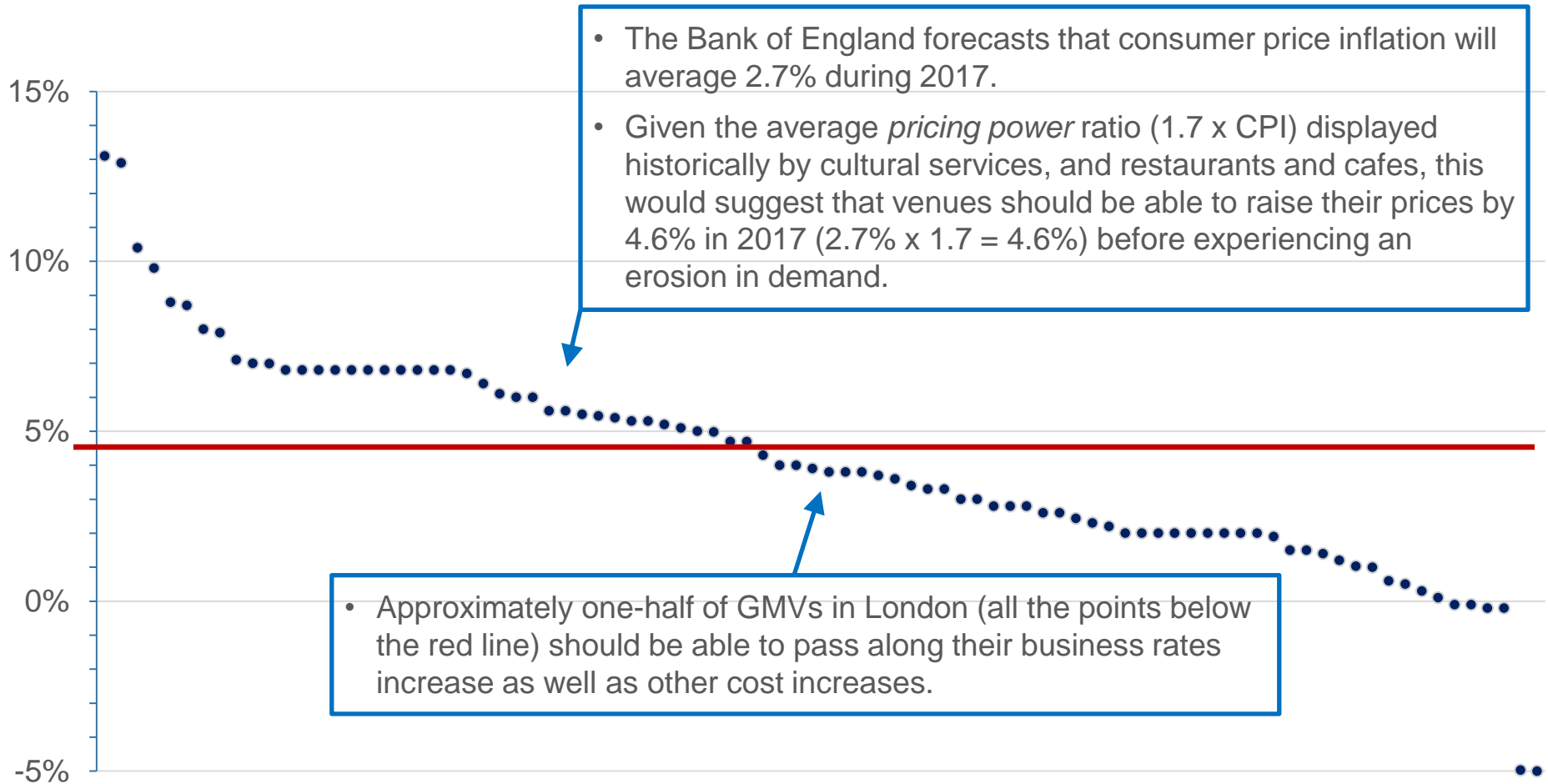
- To recover the cost of increased business rates and other expenses, GMVs are going to have to raise their average prices by more than consumer price inflation (CPI) inflation.
- Historically (1996-2016), providers of **recreational and cultural services** in the UK as well as **restaurants and cafes** have been able to raise prices at 1.6 to 1.8 times the overall **all items CPI**.
- The midpoint of this ratio (1.7x CPI) was used to establish an upper-bound threshold for GMVs' *pricing power* – in this case, the maximum amount that GMVs could raise prices before eroding demand for the audience offering.

Average annual change in consumer price index (CPI), 1996 to 2016



Source: ONS

# GMVs' ability to pass through overall cost increases



# Venue risk mapping

- To this point, the analysis has assessed the business risk facing GMVs on the basis of whether or not they could pass along the increase in business rates to patrons in the form of higher average prices.
- This one-dimensional analysis suggests that GMVs that would have to raise their average prices by more than 4.6% would be at risk of closure.
- Some GMVs, however, may respond to higher business rates by altering their programming and focusing their business models on more commercial acts.
- This is referred to as “talent risk” because, whilst it is accompanied by limited, if any, business risk (from venue closure), it does mean that there will be fewer opportunities for local emerging artists to obtain performance experience. This can have a negative impact on cultural outcomes – both at a local and national level.
- In the long run, the reduced number of performance opportunities for emerging artists will also have a negative economic impact for the UK music industry because the talent pipeline will be constrained.

# Venue risk mapping

- To further assess the risk facing GMVs, London's cultural vibrancy and the UK music industry, London GMVs were grouped into one of four risk groups based on the average price increase they would have to pass through to customers and venue capacity.
- The four **risk groups** are:
  - **Low risk:** These GMVs would not have to increase average prices by more than forecast CPI inflation (2.7%), so display little if any risk of closure.
  - **Medium risk:** These GMVs would have to raise their average prices by between 2.7% and 4.6% (the upper threshold of GMVs' pricing power). Because of this, some may experience reduced demand (i.e. smaller audiences) and therefore be at risk of closure.
  - **High risk:** These GMVs would have to raise their average prices by more than 4.6% in order to cover their higher business rates. Because of this, they are likely to experience an erosion in demand and therefore are at a high risk of closure.
  - **Talent risk:** These GMVs are likely to convert to more commercial programming, in order to mitigate the reduced demand they would face because they would have to raise their average prices by more than 4.6%. GMVs with capacity of more than 250 were assumed to be likely to convert to more commercial programming and thereby generate a risk to the development of future talent.

# Number of grassroots music venues categorised by risk rating per borough

	Low risk	Medium risk	High risk	Talent risk*	Total
Brent	1	--	--	--	<b>1</b>
Camden	3	2	4	3	<b>12</b>
Greenwich	1	--	--	--	<b>1</b>
Hackney	5	3	5	5	<b>18</b>
Hammersmith & Fulham	--	--	--	1	<b>1</b>
Islington	5	2	1	3	<b>11</b>
Kensington and Chelsea	--	2	1	--	<b>3</b>
Kingston upon Thames	--	--	--	1	<b>1</b>
Lambeth	1	1	2	1	<b>5</b>
Lewisham	3	--	--	--	<b>3</b>
Richmond upon Thames	--	1	1	--	<b>2</b>
Southwark	--	--	--	2	<b>2</b>
Tower Hamlets	3	--	--	--	<b>3</b>
Wandsworth	--	1	--	1	<b>2</b>
Westminster	3	2	2	3	<b>10</b>
<b>Total (based on sample)**</b>	<b>25</b>	<b>14</b>	<b>16</b>	<b>20</b>	<b>75</b>
<b>Total (pro-rated to population of 95 venues)</b>	<b>32</b>	<b>18</b>	<b>21</b>	<b>23</b>	<b>94</b>

Source: Nordicity analysis based on data from MVT, ONS and Bank of England

\* *Talent risk* or refers to the venues that are likely to reassess their business models and increase their focus on commercial programming rather than emerging-artist or community programming.

\*\* Based on the number of venues in the sample (75 out of 94) for which sufficient data on business rates and capacity were available.

# Economic impact of business rates revaluation

# Economic impact

## Contribution of GMVs to London economy, by venue risk level

Venue risk level	Number of venues*	GVA (£m)	Employment (FTEs)
Low risk	32	24.5	605
Medium risk	18	14.1	347
High risk	21	7.4	183
Talent risk**	23	45.8	1,125
<b>Total</b>	<b>94</b>	<b>91.8</b>	<b>2,260</b>

Source: Nordicity analysis based on data from MVT, ONS and Bank of England

\* The number of venues has been pro-rated to sum to 94.

\*\* *Talent risk* refers to the number of venues that are likely to reassess their business models and increase their focus on commercial programming rather than emerging-artist or community programming.

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