HOUSE OF COMMONS

Housing, Communities and Local Government Committee

Oral evidence: High streets and town centres in 2030, HC 1010

Monday 3 December 2018

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Watch the meeting

Members present: Clive Betts (Chair); Bob Blackman; Mr Tanmanjeet Singh Dhesi; Helen Hayes; Andrew Lewer; Teresa Pearce; Mr Mark Prisk; Mary Robinson; Liz Twist; Matt Western.

Questions 245 - 376

Witnesses

I: Mike Ashley, Chief Executive, Sports Direct Group.

II: Tony Ginty, Head of Public Affairs, Marks & Spencer; Richard Collyer, Chief Financial Officer, New Look; Martin Foster, Managing Director, Lakeland Leather Limited.

III: Maria Horn, Chief Operating Officer, Nando's; Simon Emeny, Chief Executive, Fuller's.

Examination of witness

Witness: Mike Ashley, Chief Executive, Sports Direct Group.

Q245 **Chair:** Good afternoon and welcome, everyone, to the Committee's evidence session on high streets and town centres in 2030. Mr Ashley, thank you very much for coming. I will just ask Committee members to put on record any interests they may have that are particularly relevant to this inquiry. I am a vice-president of the Local Government Association.

Teresa Pearce: I just have my registered interests, and I also employ a councillor in my office.

Liz Twist: I employ a councillor in my office.

Mr Dhesi: I am a councillor, as per the register of Members' interests.

Bob Blackman: I am a vice-president of the Local Government Association.

Andrew Lewer: So am I.

Mr Prisk: I am a non-executive director of a travel and cartography business.

Q246 **Chair:** Mr Ashley, could you just say the capacity in which you are here to give evidence to the Committee? That would be helpful as a start, and then we will come over to questions to you.

Mike Ashley: It is on behalf of House of Fraser, which is part of the SDI Group.

Q247 **Chair:** Thank you very much for that. Mr Ashley, you took over House of Fraser in its current form from the pre-pack administration that had been arranged. As you are also a major shareholder in House of Fraser, it has been said that it looked like an engineered arrangement for your new company, which now owns House of Fraser, to avoid its responsibilities to the pensioners of House of Fraser, to suppliers who had supplied goods and had not been paid, and to customers who had bought goods and had not received them.

Mike Ashley: Okay. When you say a major shareholder, we owned 11% of House of Fraser. We had owned that for something like five or six years. We were not on the board of House of Fraser or had anything to do with any of the management or day-to-day decision-making of House of Fraser. We were a lot more distant from House of Fraser than probably has been portrayed. I hope that answers the question.

Q248 **Chair:** From an outside point of view, it looks like pre-pack administration and two hours later you are waiting at the door to walk in, take the assets and none of the responsibilities. Would that be a fair description?

Mike Ashley: No, that is far from a fair description. If we look at House of Fraser, we would turn round and say, as a shareholder, we were nothing but frustrated by the previous management through access of information, be it accurate or inaccurate. I have said that I think the insolvency services should look at House of Fraser; I believe that House of Fraser had been trading whilst insolvent for a very, very, very long time before SDI stepped up and saved House of Fraser at 4 in the morning.

Q249 **Chair:** You took House of Fraser over. Do you think at that point you might have thought you could have had some responsibilities at least to those individuals, some perhaps not on very large incomes, who bought goods in good faith—probably online—and then suddenly found they had paid the money and were not going to get any goods in return? Do you think at that point you might have said, "Okay, I am going to do quite well out of this deal. Should I not at least have kept that obligation to those people?"

Mike Ashley: Let us try to explain the situation we found ourselves in. We end up basically getting a call to make a decision at 4 in the morning as to whether or not we wanted to complete the House of Fraser deal. As of that next day we are not able to function as a business, because House of Fraser did not own their own warehousing, did not own all their own internet service, and had no way of communicating with those customers, either ones that wanted to buy product or wanted their product delivered. It is like the business starts again on that day.

When you turn round and you say, "Why would you have the warehouse closed for X weeks/months? Why would you have the internet off for X weeks/months?", the reason is those suppliers are able to turn around—and it is very well publically documented—and ask for the hugest sums of money to say, as a group together, "If you do not pay us £30 million we are not going to turn on those services".

That is the position we were faced with. As soon as you are in that position, what do you then do? You have to take the whole media storm that comes with it, knowing that, if and when you are able to get those services turned on, you will say to people, "Okay, here you are. We can credit it with a gift card or a gift voucher". If I go out and say, two weeks into the process, "It is okay. We will credit everybody. All I want you to do is come on the internet and ask for a credit note or gift voucher", or whatever you want to call it, there is no internet for them to go on to.

Sports Direct even looked to see if for House of Fraser they could order a huge wodge of old-fashioned manual cheques to hand-write them. There would have been thousands and thousands and thousands of them. It would have not been practical to do that. We wait until we are through the storm, we wait until the warehouse is back up and running, we wait until the internet is back up and running, and then we say to people, "If you email us, we will issue you a gift card online". We cannot do any more. It may be that from where you are sitting you think that we can do more, but we cannot actually do any more—not at that time. It is as simple as that.

Q250 **Chair:** Are you saying to the Committee, Mr Ashley, that, for everybody who bought goods online and did not receive those goods when the company went into administration, you will then now honour those individuals their transactions by giving them a gift card for your new company to the same amount?

Mike Ashley: If you are asking me, my belief is for people who had gift cards or gift vouchers—I do not know what you want to describe them as—everybody has been told to email in or register, and equivalent gift cards are being sent out. It is different if you are asking me about third-party suppliers. For example, somebody is going to ask people if I am an expert on sofas, which is only a concession within House of Fraser: "What are those people doing? What have they done with the customers when they have had the money?" All we can tell you is what we have done and what we can do, and we could not have done any more.

Q251 **Chair:** I think you have just changed the nature of the answer there. You replied by saying the people who had gift cards with the previous company will now get a new gift card to the same amount with your company. What you did not answer was on people who bought online on the House of Fraser website—as was—and paid for goods. Will they now get a gift card from you to that equivalent value?

Mike Ashley: I am trying to tell you I think we have already done that but I am not going to promise 100%, because there are always odd exceptions. Let us be crystal clear: that is a totally separate company. We are not obliged in any way to honour anything, and anything we do is purely out of a goodwill gesture. Do you agree?

Chair: Mr Ashley, if you are going to exercise goodwill at this time of the year, I think we can all appreciate that.

Mike Ashley: No, but do you agree the new company does not owe one penny of the old company's debts—yes or no?

Chair: Mr Ashley, I am not a lawyer.

Mike Ashley: Nor am I, by the way.

Q252 **Chair:** As I understand it, there are not legal obligations for the new company. I was simply asking you whether you are now prepared to honour, as a goodwill gesture, if you like, the payments that were made.

Mike Ashley: I am telling you I have already honoured it to the best of my knowledge, but nothing will be perfect. There will always be an odd exception or exceptions where something has gone wrong. What we could not do was click our fingers and do it overnight. As I have tried to explain, it was physically impossible. You do not need to be a lawyer to understand that we had no obligations to the previous company that I believe was traded for a very long time whilst it was insolvent, and nobody seems to want to do anything about it. By the way, I was an 11% shareholder as Sports Direct and we lost £11 million. Our money went. It might have gone to somebody else in House of Fraser, but not me. The only reason SDI got House of Fraser was that it was prepared to pay the most amount of money.

Q253 **Chair:** As a gesture of goodwill, you are giving the Committee an assurance that everyone who bought goods online with the previous company that they then did not receive will get a gift card to the same value, and if there are one or two problems here and there, you will try to sort those out. That is what you are saying to us.

Mike Ashley: I have said I have already done that. You are not going to tie me down to, "I commit to this, that and the other". I did not come here today to talk about gift cards and House of Fraser's demand and how the process works. I came here to talk about the high street, but seeing as you want to drag me into that, I am categorically not going to give you a guarantee. I am categorically not, because I believe we have already done it. There will be anomalies, as I say, with certain suppliers that are nothing to do with the new company. They probably do not even operate in House of Fraser stores anymore. How many suppliers do you think House of Fraser has?

Q254 **Chair:** I have no idea. No doubt you do know.

Mike Ashley: Can we imagine it is in the hundreds/thousands?

Chair: Can we move on?

Mike Ashley: That suits you to move on now, does it? I am trying to come here and be honest. I thought this might be what you wanted me here for.

Q255 **Chair:** No, we want to talk about House of Fraser going forward, the sort of company it will be and how it will operate. Let us look at the workforce of House of Fraser, Mr Ashley. In the end you are going to take over quite a large number of employees who will be thinking about their future at this time of the year. Can we have an assurance that you are not going to build your business in House of Fraser by re-employing those people on zero-hour contracts?

Mike Ashley: Would you be surprised to learn that the majority of people on zero-hour contracts like being on zero-hour contracts?

Chair: I probably would, yes.

Mike Ashley: Okay, so we will leave it there. If the majority of people want to be on zero-hour contracts, why would I stop the majority getting what they want?

Q256 **Chair:** Mr Ashley, you are not then going to enforce a position where people who do not want to be on zero-hour contracts in House of Fraser, who are currently not on them, are forced to move over? I am just asking a simple question.

Mike Ashley: I am giving you a very simple answer. I am telling you that if the majority of people want to be on zero-hour contracts then that is what we will have. The majority will rule. If the majority do not want zero-hour contracts, we will not have zero-hour contracts. I cannot always fix it for every person. It is not possible.

Q257 **Chair:** How will you decide if the majority want zero-hour contracts?

Mike Ashley: We have had surveys at Sports Direct, and they came out that the vast majority wanted them. It is the same as McDonald's. People in retail tend to be the same. They tend not to be very different from one thing to another.

Q258 **Chair:** How are you going to judge whether House of Fraser employees all want to transfer to zero-hour contracts?

Mike Ashley: All? I am very happy to have surveys. I have no problem with surveys. I have no problem with surveying Sports Direct people again. If the vast majority no longer want zero-hour contracts then let us get rid of them. It is no problem for me. It does not make that much difference to me whether they are on a zero-hour contract or not. You seem to think there is some huge advantage of zero-hour. It is the flexibility that it brings. Zero-hours are very simple. Students love them, because when their term time is finished they can just come and say, "I want to work. I do not want to commit, but if you need me, I can come in". Students love zero-hour contracts. A lot of mums love zero-hour contracts because they want the flexibility not to have to come in on school holidays. I do not think you understand the popularity of zero-hour contracts.

Q259 **Chair:** I understand the popularity of people having some sort of guaranteed income. When you came to a previous select committee, with the BEIS Select Committee, you actually committed to ending zero-hours contracts at Sports Direct. You have not kept that promise, have you?

Mike Ashley: Yes, I have absolutely kept that promise because we went out, we surveyed the workforce, we said, "What would you like? Would you like contracts to have a guaranteed five hours, 15 hours or 25 hours? Whatever it is, go down and tick the appropriate boxes". The vast majority of people—I am going to get this figure wrong now; I am going to say 80% but that will be the wrong figure, so let us go safe and say 70%—said, "No, we like the complete flexibility". You are wrong.

Q260 **Chair:** Those who did not want the flexibility could not have the guaranteed income.

Mike Ashley: Are we going to go round and round on the same thing? I can only do it for the vast majority. I cannot get every single little thing right. It is not possible. I had to say to the Committee last time, "I know I am ultimately responsible for every action of every person in the SDI Group, but in reality it is impossible". It would be like saying the policeman was personally responsible for every burglar. It is not possible. We can only do things on the vast majority; if the vast majority want something, that is what we give them. It is as simple as that.

Chair: Some employers manage to have different contracts for different employees.

Q261 **Liz Twist:** Mr Ashley, I would like to ask a simple question. For the staff that you have taken on from House of Fraser, will you be maintaining their current contracts of employment and the conditions, and will you be recognising the trade unions that they were in?

Mike Ashley: Do you agree that House of Fraser has to be a totally different business to what it was? It has to change. That is why it went bust. It went bust because what was being offered was not right.

Liz Twist: Yes.

Mike Ashley: Therefore, you have to say that we have to change things. We have to change things, and guess what? That may mean that we do not have as many people, because everybody knows when you went into a House of Fraser, it was like nobody was in there. The only people who were in there sometimes appeared to be the staff. You have got to say, "Okay, maybe they got their staff ratios completely wrong to the modern-day demand on high streets". Am I going to guarantee every single person? I will tell you now. You can ask me the question as many ways as you like. No, because I cannot. What you are asking me to do is impossible. It does not make sense. I understand in principle, yes, but you want to say for every last person. It is impossible.

If anybody sits here and says they can, I do not believe them. I literally do not believe them; otherwise, they will not be sat here in 2030, for sure. They will not be sat here in 2020. The high street has to change what it offers the consumers. Therefore, what people were doing before will not be right now, and I can absolutely guarantee you it will not be right in the future. I can guarantee it.

Q262 **Liz Twist:** We understand, and we will hear more about what your views are on the future of the high street. What I am specifically asking about is those staff that you have taken on, and whether you will retain their contracts as they are, or whether there will be negotiation with the recognised trade union about any changes you may wish to bring in.

Mike Ashley: Okay. I am going to answer this again. The world is going to change very much, and therefore we have to look at House of Fraser and any other business that we buy, including SDI itself, and it has to change. It is constantly changing. That is my answer. I do not want to be put in concrete boots by, for example—and I do not know if they are—prehistoric practices that are not relevant for today's retail consumers.

Say a store used to open at 9 o'clock. There are no customers on the high street at 9 o'clock anymore. Say stores need to open at 12 o'clock now. That person's contract would have to move. Maybe shoppers want to come in and pick up their internet parcels after work, so whereas a store used to shut at 6 o'clock or 5.30, maybe it needs to stay open later. Just think about it. Stop trying to showboat and pin me down here, because that is what you are here to do. I thought we were here to talk about saving the high street, but clearly we are not. That answers your question as fairly as I can.

Q263 **Liz Twist:** I am not entirely sure that it does answer my question, but I have heard the response. The one thing I have not heard is any reference to the trade unions.

Mike Ashley: Okay. Give me one second—let me get my glasses on. Right, trade unions. We all know I was here before, and we all know that I was very unhappy with Iain Wright, with his links with Unite. I do not think it is right that he had received money from Unite. That makes him conflicted. That put Unite in a very difficult position. By the way, I am not against unions. That is the funny thing. The odd thing is you keep arguing against the person that is actually for the people.

Let me just read you this. This is Steve Turner, of Unite, when he came to Shirebrook and he went round with three or four people: "It was the agencies we were after. We had to get you in order to get the agencies". He repeated, "Our problem is not with you. It is with the agencies. We cannot get to them so we had to come after you". That makes negotiations with a union very difficult. I understand what the union's problem is. They need to fix the deal over here.

You know what? If I am the perfect pantomime villain poster boy to pick on, it is part of the process, but when you then say to me, "Work with the union", I have to make sure that they do not want to make me the pantomime villain again, their poster boy for everything that is bad, because I am not. I do not know of any other retailer that paid out voluntarily, all the way through the group—every single full-time person shared £250 million in super bonuses. They were not normal bonuses, but super bonuses. Think about that.

Q264 **Mr Dhesi:** Mr Ashley, in terms of what you just said, let us dwell a bit more on zero-hour contracts. I know that what you have intimated is that the majority of the workforce—whether that is at Sports Direct or House of Fraser, where you will no doubt be doing surveys as well—want to remain on zero-hour contracts, but the evidence that the likes of us have got, in terms of interactions with unions or staff, is that they are extremely anxious about zero-hour contracts and the race to the bottom. Given that scenario, in terms of the stores that you will have on the high street or elsewhere, would you reconsider in terms of employing those people not on zero-hour contracts but with proper contracts and security of work?

Mike Ashley: We do. Do you know how many people we take from zero-hour contracts and they work their way right through the company, all the way to the top? If you are on a zero-hour contract, you would be the first in line to be offered a full-time contract, because we already know you. We have already worked with you. You already understand how our processes work. It is a fantastic stepping stone on the way up. It is a total positive.

I am going to say it again: I get the sense that people want to pick on a thing because it is a political hot potato—"zero-hour contracts are so terrible; they are draconian; they are this; they are that". They are not perfect. I never said they were perfect. I said in lots of circumstances they are absolutely fit for purpose.

I should probably do a survey at Sports Direct to find out how many full-time employees have come through zero-hour contracts. The truth is I do not know the answer of the top off my head. I just know that I meet people, and when a debate comes around, they say, "I started on zero-hour contracts, Mike. Look who I am. I am running head of transport. I am this. I am that. I am manager of X, Y, Z". As I understand it, our most successful manager started in a store on a zero-hour contract. It has been in the public and it has been in the press. It is not a secret. Why do you come and make it such a negative thing? I will commit to it: if the majority of people do not want zero-hour contracts, we should do away with them. It is as simple as that.

Q265 **Mr Dhesi:** Let us move on to House of Fraser. When you took charge of that you said that you were going to turn it into "the Harrods of the high street" and that you were hoping to keep about 59 stores open. Many around the country are anxious about store closures. What factors will you take into consideration when deciding on whether to close a store?

Mike Ashley: Please, it is not possible that you call me here today and quote that I said I would try to keep 59 stores open. I never, never, never said that, and you know it. This group here does not know. I never said I would keep 59 stores open—never, never, never.

Q266 **Mr Dhesi:** I have a direct quote from yourself. You wanted to turn House of Fraser into the Harrods of the high street and hoped to keep 59 stores open.

Mike Ashley: As many of the 59, and everybody knows I set a target of 80%. What person could keep 59 stores open, besides God? It is impossible. It cannot be done. Why do you want to drag me to these Committees and try to get me to commit to things that cannot be done? There is no point. Let us be realistic. If I managed to save 80% of them, that might be a godlike performance, and before anybody says it, I am not comparing myself to God.

Q267 **Mr Dhesi:** Brilliant. I do not think anybody else on the Committee is either. Just to ask the question, what factors would you take into consideration when deciding whether to close a store?

Mike Ashley: First of all, it is lots. Let us talk about a store. What timeframe are you going to give me for keeping a store? Is it three months, six months or one year? Is it a 10-year lease or a 15-year lease? What is the timeframe? Give me an idea of the timeframe.

Mr Dhesi: I am not here to answer questions.

Mike Ashley: I understand, but now you understand the complexity of the answer. If I give an answer like that, everybody will say, "You said that". Of course I did not mean that. Be realistic. You say, "Glasgow—have you committed to keep the number one store open, in Glasgow?" "Yes". "How did you manage to do that?" "We bought it". By definition, we have committed £100 million into House of Fraser in Glasgow so you can then invest in the store.

What happens in stores that you therefore cannot buy, for whatever reason? That makes them very difficult to invest in. What happens if you have a landlord that wants it for development for something else, because they are going to make a fortune if it turns into flats, service business offices and everything else? A lot of the property has a lot of value for other uses, and it is not easy to keep it as retail. Everybody wants to say, "Greedy landlords". I accept some landlords are being greedy, but the vast majority of landlords want to sit down and work something out. They do, but then we get into timeframes, investments and how we are going to do it.

What happens if you have a store and the whole high street dies around it? What are you going to do with the store then, just because I said, "Okay, I will sign a 10-year lease"? It is not going to help. In the end, that might bring the whole business down. I said before, to the previous Committee, that I am not Father Christmas. I believe I am a fair guy. I try to be fair and I try to be balanced, but you cannot get me to predict a number with all different variables going in. Why would I not want to save them? What advantage do I get from closing them?

Q268 **Mr Dhesi:** Let us go to empty stores. Bill Grimsey presented evidence to the Committee earlier this year, in terms of how empty stores are a massive scar on our high street and in terms of the huge void that they leave behind. Do you worry late at night about the impact of closing a store on the health of the high street in which that store is situated?

Mike Ashley: Why do you ask me "late at night"? Why do you not say "on a Monday morning" or "during a normal working day", when I am supposed to be considering these things? That is when I think about them.

Mr Dhesi: Whatever time of day.

Mike Ashley: It is in the right environment with the right people. I am sat with Property; I am sat with HR; I am sat with Buying; I am sat with Shop Fittings. It is a whole group of people that make those decisions. I said last time that I am not sitting in my office stroking a white cat. Let us assume that I look at all of those things. You think it is funny; I do not. I find it very frustrating. Again, what benefit have I got from closing stores? Let us get on to this: why are so many stores empty on the high street?

Q269 **Mr Dhesi:** The question is: do you worry about the impacts of store closures on the high street?

Mike Ashley: I am a retailer. Of course I worry about the state of the high street. By definition, I would worry about the state of the high street.

Q270 **Mr Dhesi:** Good. That is all I wanted. I just wanted an answer to the question. Finally, do you see mitigating the harmful impacts of a store closure on the high street as part of your business's corporate social responsibility?

Mike Ashley: Of course not. Of course not. It is not my fault the high street is dying, is it? It is not House of Fraser's fault. It is not Marks & Spencer's fault. It is not Debenhams' fault the high street is dying. It is very, very simple why the high street is dying, and you all know the answer. We have to say it. It is the internet. The internet is killing the high street. I know. We have a £400 million internet business. That is £400 million. Guess what that affects the most? The high street, by definition. The question is what to do about it. If you want to save the high street, you have to address that problem. It is as simple as that.

Q271 **Mr Prisk:** Let us do that. Let us look at the future. What is your vision for the high street in 2030?

Mike Ashley: I would not even go to 2030. I have already thought about this. I would like to bring that here today, now. I want to make it crystal clear that the mainstream high street, as we think about it today—not the Oxford Streets or the Westfields—are already dead. They cannot survive. Their patient has died. We are talking about the majority and the mainstream.

Now what we are going to talk about is whether we could save the vast minority. What can we do for them? In some of those other high streets, the decline has happened. It is not the retailer's fault they have to come out of high streets. They have to come out of high streets not because they are making money but because they are losing money. People then get very confused about losing money. You lose money even if on a bit of paper it says, "This store is profitable". Accountancy-wise it might be, but it does not allow for central overheads. You must look at a store's profitability after central overheads. I promise you that somebody has to pay to get the goods to the store. Think about it. We say, "This store was profitable", but that does not allow anything for central overheads. How would it survive if it did not have a warehouse supplier or an HR role? Think about it. It is impossible, so you have to look at it after central overheads. The vast majority of the high street, therefore, has already died—dead. It is in the bottom of the swimming pool, dead.

Q272 **Mr Prisk:** How do you resuscitate it?

Mike Ashley: That person has died. I said it is now about the vast minority of the high street. This person, besides the top 20%, is flat-lining. They are on the operating table. They are flat-lining. You have got a problem. The only thing you can do is try to give them a massive electric shock.

Q273 **Mr Prisk:** What is that?

Mike Ashley: It is very simple. By the way, the Sports Direct group will not thank me for saying this. You have to immediately tax the internet, and I do not mean just the pure-play internet. That is why I say the Sports Direct Group will not thank me for this. You have to tax the internet for the good of the high street and the good of all. I do not mind if it starts in six months' time, because that gives all retailers time to adjust.

You have to tax the web boys 20%. By the way, that will affect me massively. I have just told you I have a £400 million business, so that is going to be a big bill. Think about what would be fair, and think about what you want to achieve. You want to save the high street. You accept that 20% of the high street is not saveable, 60% is in a terrible, terrible mess as we speak, and 20%—the super elites in the Oxford Streets—will survive anyway, but in my opinion that is not really the high street. Oxford Street is not the high street and is not really relevant.

What you are then trying to do is trying to save the majority of this 60%. You have to do some really, really simple stuff and say, "Okay, what happens if more than 20% of your turnover was on the web?" You go, "Oh, you have to pay the 20% then". "That will make it harsh". Why would you put in a band of 20%? Plus or minus a bit, people currently say the web is 20%. That is what they say. They say it is going to go to 40%. Let us assume that 40% is not the right figure, but it is somewhere between 30% and 50%. That is what it is going to go to.

It is very simple. If I am a retailer and I am the SDI Group, I will make sure not to pay the 20% tax. I keep 80% of my revenues going through the high street, because I would. I would stop closing three stores into one, or two stores into one. I would say, "No, it now makes perfect business sense for me to cross-subsidise those stores and keep them open". I would also like click-and-collect through the high street stores; that acts as a credit. In other words, that helps against the 20%. It means Sports Direct Group would then look to keep as many stores open as possible, because it knows this internet business is coming, and would not only reinvest in old stores instead of closing them, but guess what? I bet it would go on an opening spree.

Q274 **Mr Prisk:** That is very helpful and it is useful to understand the nature of that sales tax. Just looking at the other side of it, what do we do for those dead high streets that you have described, and which we have seen in evidence?

Mike Ashley: You have to do these things. My answer is based on the fact that you have done the 20% web tax. That is basically done. That 20% is done. Sports Direct Group is then desperate to keep 80% of its sales on the high street, because it does not want to slip into the 81% band and pay the tax. It will then look to open stores in places just like you are talking about.

How would you get a Sports Direct to open stores? You would turn round to a Sports Direct and say the council—who would have to agree to this, by the way—would give them free rates for five years, on the condition that Sports Direct matched every pound of free rates with a pound of investment that has to just go in that site. All of a sudden you have an empty store. The rates are going to be collapsing anyway because, by definition, all the empty stores are bringing all the rents down, which are bringing all the rates down, which brings back the income anyway. Now we have to turn it and force it the other way.

By the way, this could equally be Marks & Spencer, Debenhams or any retailer that the council tick as being worth them having, because they have to decide. The retailer has to agree to match, pound for pound, rate savings, and invest them. This is no free ride for the retailer. The landlord would have to agree to, say, a 25% reduction in rent. Why? Why should the council not get anything and they get the full rental value? That is not fair. You suddenly get the council agreeing, the retailer agreeing and the landlord agreeing. If you are a public company, you can also say that the public company has to agree to a 25% reduction in dividend, so then it is the stakeholders or shareholders of that company putting in.

Everybody has to put in, and if you do not help retailers like me, it is very simple. Force me, because you watch us reinvest because we have to, because we need to keep 80% of our trade on the high street, and simultaneously you have levelled the playing field with the internet, the web guys, with one big knockout punch. Will it be perfect? Absolutely not. Will every percentage be right? No. Will somebody cheat the system somewhere? You are not kidding. People cheat. That is what businesses do. Some accountant somewhere will find some way of fiddling the numbers and not actually spending the money on that store, because they gave it away as a design fee. We put down 500 grand for a design fee for that store because it was not for that store; it was for 10 stores or 20 stores.

You have to put draconian measures in around an incentive like this. You have to turn around to an SDI Group—and I do not care by the way; I will sit next to Marks & Spencer; I am quite happy—and say, "If you fiddle, for every £1 you fiddle you are going to get a £10 fine. It is very simple; it is 10 to one. Do not fiddle the council. It is not fair. Their money is not free". Ten to one is fine. I love it. I would therefore make sure that I was only claiming £90 instead of £100, because I do not want to go near that edge.

The accountants that audit those figures—because they have to be submitted to the council; they have to be fair—can have a £1 fine. The retailer can have a £10 fine for every £1 that is wrong and the auditor can have a £1 fine, because half the time the auditors do these things. They come up with these methodologies and everything else, and they create this money, this thing and everything else, and nobody quite understands it. You have to be draconian.

What else would I put in? I would put in that for any executives of the retailer, if it is perpetual abuse, you can give them a custodial sentence, and what is more, why not extend it to the non-execs? What I see in life is too many people on the merry-go-round. The problem is on someone else's shift. People move around. You have been given this short time window to make a difference, so you really do not care about the next person coming in. Everybody in business says, "Rotation is great—people get old, they get stale and it needs freshening up". You get this short-termism that makes it impossible for a group like this to actually make a difference on the high street. I am telling you: plus or minus, it is impossible.

You have an impossible job. That is why I came, with a sort of self-confession, to say, "I will tell you how I would deal with an SDI, the same as an M&S". That is how you will get us to invest. Force us and help us. It is the combination of the carrot and the stick. People like SDI will step up to the plate. We would never want to become 21% online. Why? Because we would be subject to the tax. We are going to make sure we keep it at 80% in the high street.

By the way, with click-and-collect we are going to make sure people go to the high street to pick up those parcels rather than getting them delivered at home, because it pays us to. If we have to give them gift vouchers to come in the stores that they get to spend, guess what? They are then going to come in the store. They are then going to visit the high street.

You guys will have to do more. You have to do free parking. I am not talking about Oxford Street. I do not care about Oxford Street. We all pay millions and millions in rent there. I am talking about high streets, as per your evidence, that are barren, deserted and closing. You still get some towns that charge for parking. Therefore, you have negated the whole free click-and-collect voucher, because they have to pay it all away on parking fees. It is impossible, but everybody has to come together and look at it on this kind of scale. I know it sounds very socialist. I did say earlier that I am not this crazy capitalist that everybody thinks I am. I am genuinely not. You need to deliver something like that and really shine the light on the bad boys—and I am the perfect character to talk about this—but also why can you not shine the light on when somebody does something right and well? Hold them up, and hold some of the councils up.

Just so we are clear, with House of Fraser some of these local authorities have really, really worked hard to help us. They have been on the phones; they have been saying, "We want to meet you. How can we help? Let us have a conversation". You are thinking, "Okay, there will be a time for this. Let us get the waters calmed down, the warehouse up and running, the internet going and the short-term leases solved. Now let us sit down with the landlord and say, 'Do you want us to co-invest with you? How do you want to do it? How can we make things better?'" The councils do not get enough credit. Everybody thinks I would be against councils; I do not know why. The councils that I have met know their numbers inside out and they genuinely care. That is their city. That is their town.

Q275 **Mr Prisk:** Thank you for that. Just briefly, from a business point of view, a lot of people say that the department store is dead. You clearly do not agree, because you have just bought into one. How do you buck the trend?

Mike Ashley: I have not just bought into one. I bought into House of Fraser six or seven years ago, and I also started buying a stake in Debenhams about five years ago. The concept of the department store is actually correct. If you think about it, you get everything in one building. What happens with the partner stores is they actually have a bad offering in nearly everything. If you can get retailers to take the right amount of space in a department store, like Sports Direct or House of Fraser, but elevated because it is a House of Fraser, the Harrods of the high street, all of a sudden everybody wants to go there to get their Nike, Adidas or whatever brands.

I do not believe that department stores are dead. They have to evolve. They have to be different. It is not just about a sea of clothing anymore. Why would you not put free gaming on the top floors of department stores? I mean computer games, just so we are totally clear. It drags that generation through the store. What does it cost to set up? The top floor of that department store was losing money and not taking anything anyway. You see it in Currys PC World. I do not know if you know, but you go in and you have this free gaming going on. It is a brilliant idea. That will fetch the young people into the store. By the way, the average gamer is about 31. They are not 12, as people imagine. They are adults. All of a sudden you are creating a place where somebody goes, because they need to go. They interact, and there is something there. What they do not want—and I am not being rude—is being ripped off to park to go there. You suddenly get the people coming.

Let us assume that my wife is an avid gamer and I am not. Therefore, we ended up going to the department store. She goes and does the gaming, and I wander off around the department store, have a cup of tea and buy something. That is the sort of thing that can change department stores. What they are stuck with is prehistoric rents that are no longer correct, and they are not. That is why landlords have to take their share of the pain, because the rents were set before the internet. They are no longer relevant. I am not being rude, but the business rates are based on those, and it is madness. That is what is killing department stores.

The guys at Debenhams did not suddenly become bad retailers overnight. Debenhams is a good business. It just cannot survive on the rent and the business rates it is paying, and it probably cannot survive on the amount of people it has in the store. It probably has to be more self-service—more self-service tills, more this, more that. House of Fraser will elevate itself to a more luxury offer. It has a different role to play in the high street. They all have a different role. House of Fraser's role is to bring luxury to the high street.

Q276 **Matt Western:** Thank you for coming in, Mr Ashley. I have been trying to meet with you since 22 August, as it happens. On Sports Direct International, do you have premises and business in other countries, and are other countries doing this better in terms of adapting to the internet challenge in policy?

Mike Ashley: I have to be honest: not particularly. The UK is quite ahead on the web. That is quite a known fact. We adopted the web very early in the UK, so we actually got ahead of a lot of European stores. We are a little bit further down the chain. The decline in European high streets and stores will be the same, but just a few years later.

Q277 **Teresa Pearce:** You have mentioned business rates. What proportion of your turnover do business rates amount to?

Mike Ashley: I am going to say something like 2.5% or 3%.

Q278 **Teresa Pearce:** You mentioned one of your ideas is to have a holiday from business rates for about five years. How do you think councils will manage to provide the services they need without those business rates? What do you think they do with that money now?

Mike Ashley: No, let us be crystal clear. I totally agree with you. We are on totally the same page. That is because you tax the web 20%. You have to get that money in first before you can give any back. I understand the councils do not have the money. I am not under any illusions. I have met a few of them and they do a very good job of managing their budgets. Can I put it like that?

Q279 **Teresa Pearce:** When you talk about this tax on internet sales, let me make sure I understand you. You have a business where some of it is on the internet and some of it is where people come into stores and buy. You are saying where things were bought through the internet, you would pay an extra layer of, if you like, corporation tax, but it would be like a sales tax. How will that compete with companies that sell abroad and offshore? There is a massive number of those that do not pay the level of tax that you are talking about, so how would that help?

Mike Ashley: It is very simple. In theory, you can tax them from abroad. You say, "If you make the sale in the UK—"

Q280 **Teresa Pearce:** In theory, but it does not happen at the moment, does it?

Mike Ashley: It does, because if you are of a certain size, you have to elect where to pay the VAT or the tax. All you simply say is it is an additional one to the VAT, and they have to elect to pay it in the UK on goods that are sold in the UK. That is it.

Q281 **Teresa Pearce:** That would need a change in quite a lot of tax law to do that at the moment, because at the moment you have almost got a transfer pricing thing.

Mike Ashley: Correct.

Q282 **Teresa Pearce:** You think a sales tax rather than maybe a purchase tax. For someone who buys something from your store on the internet, would it not be easier for them to pay a penny tax themselves and it be collected in the way VAT is? Do you not think that would be better?

Mike Ashley: No, because you want to get retailers saving the high street.

Q283 **Teresa Pearce:** They have not done a very good job so far, have they?

Mike Ashley: No, but is it really the retailers' fault? I am a retailer. At one time we would have probably said—and this is a real, live example—we could have had 800 stores in the UK. We probably got to 500 or 600 stores. It would have been at that time when we floated, because it was really before the web was conceived as a threat, that we looked to get up to that kind of number. Now you look and you say, "Maybe halve that number to 250 or 300". The 500 or 600 figure has actually halved. It has not gone up; it has swung the other way. It is not a retailer's fault that mobile phones came in. It is not a retailer's fault that the web came in.

Q284 **Teresa Pearce:** The point of retail is that people who are in business take the risk, they take the profits and sometimes they take the loss. Being in business means you have to be adaptable, so it may not be the retailers' fault, but what you are saying is that it is the fixed cost of rent and business rates that holds back the ability for retail to adapt. Is that what you are saying?

Mike Ashley: Yes, correct, because it was set at a different time. What I am saying, so we are crystal clear, is that if a retailer keeps its internet under 20%, it does not pay the tax.

Q285 **Teresa Pearce:** Then you have companies that are completely internet-based.

Mike Ashley: Yes. They have to pay the tax then. That is very fair. They have to pay the tax, because otherwise the high street could not possibly compete with the internet. It would be impossible.

Q286 **Teresa Pearce:** Just to clarify, what you are saying is this idea of having an internet sales tax for businesses that are part-internet and part-store can only actually work if we actually look at the Googles of this world and the Amazons. Earlier you said it is very simple, but with the way the tax law is at the moment, it is actually not that simple, is it?

Mike Ashley: The concept of it is very simple. You have to drive the people back into the high street, and they should benefit from going into the high street. They do not have to pay the tax, because that retailer is providing a service for that high street, that town or that city. That is where your money comes from. I totally accept councils cannot afford to be writing cheques to help the shop fits in town centres. I agree with you. I am not disagreeing with you. I am agreeing with you.

Q287 **Teresa Pearce:** Every big retailer says the way to fix this is business rates and free parking.

Mike Ashley: Where is that money going to come from?

Q288 **Teresa Pearce:** It is not as simple as that, though, is it? If you provide what people want, they will come and buy it, whether it is on the internet or in your store. You have to provide an experience.

Mike Ashley: Correct, but there are not enough experiences, if you like, for the big retailers to suddenly offer overnight. What you have to do is you have to help them by helping them help themselves. Sports Direct will not be very pleased with me for my suggestion. It is not necessarily a good fix for Sports Direct as a group, but it is a fantastic fix for the high street.

We have to realise the high street will not make 2030. It is not going to be there. Unless you do something really radical and grab the bull by the horns, it will not be there. I am sitting here voting to punish SDI Group. That is not very normal. Why would I do it? Because if the high street minority can miraculously be saved, in 2030, guess what? I might have a fabulous business deal; otherwise, I am just going to end up being a web player, like the vast majority of the high street. You really have to grab the bull by the horns. You cannot put in a watered-down version, because a watered-down version will not work. You watch Amazon open up on the high street. You watch these pure-play boys open up on the high street then, because then they are going to think, "God, we are going to have pay this 20% tax. We then have to play on a level playing field with the high street". You watch Sports Direct open up stores—I am telling you—because it has to. You have to help me or make me—one or the other.

Q289 **Liz Twist:** We just talked about business rates. I would like to turn to the other element, which is rent. Is rent actually the greater pressure facing retailers? Is it increasing, and what kind of proportion of turnover does rent represent?

Mike Ashley: If business rates by definition is 3%, rent is 6%. It is very simple, because your business rates are basically half of what your rent is. Those numbers are very approximate. By the way, can we please confirm that I am not giving out any inside information or anything else? I will not get in trouble for just being open and honest and everything else. I am in a closed period, so when I am talking about the high street, I am not talking about Sports Direct's trading.

Chair: Yes, we understand.

Q290 **Liz Twist:** So it is about 6%. Is that a greater cost pressure than business rates?

Mike Ashley: Yes, because one is 3% and one is 6%. It is as simple as that. If our rents halved to 3%, all of a sudden that would mean you would pay no business rates at all. It is very simple. Roughly speaking, one is 3% and one is 6%.

Q291 **Liz Twist:** Thinking about the terms of the lease and the level of rent, where does the bargaining power lie? We have had lots of evidence about whether it is greedy leaseholders or landowners, or whether it is people pushing too hard and retailers pushing too hard on them. What is your view?

Mike Ashley: Landlords and retailers by definition have always been uneasy bedfellows. The landlord's job is to get the maximum amount of rent. The retailer normally wants to pay the minimum amount of rent. They will both sit in a room and promise each other everything, but in reality when one has the upper hand, he gets his big hammer and he bashes the other one. If the other one gets the upper hand, he brings out his hammer and he bashes the other one.

How would you regulate that? You cannot really regulate what a landlord is able to charge in rent. Take Bond Street. Who feels sorry for any retailer on Bond Street? I do not. I certainly do not feel sorry for any retailer on Bond Street, and if those landlords are able to charge them tens of millions of pounds a year in rent, good luck to them, because they are able to pay it. That is not the case when you have got somebody who has signed leases many, many years ago, with only upward rent reviews in, and those rents have collapsed. It is about how you help those people, when in 2006 you might sign a store that was worth £50,000 in rent—by the way, that was probably a good deal—and now it is only worth £10,000. What happens? The retailer goes bust, the stores close and it implodes on itself. It is a downward death spiral. It is unbelievable once it gets out of kilter.

If it is always going up, even gradually, the system works. With the rent review process, all you have to do is get a couple of potty retailers and, for whatever reason, their business is on fire. Look at McDonald's, years ago. McDonald's wants to rent a site: "They are going to make a fortune. They can afford to pay anything". Another retailer comes along, such as a Sports Direct. I am not being funny, but 15 years ago Sports Direct often used to set the record rents. Why? Because it used to make the most per square foot because it sold the most per square foot. People like M&S and all the big boys were considered in a league of their own.

Then what happens is at all the rent reviews, they used these huge, record rents that McDonald's and Sports Direct set to set everybody else's rents. Those small and medium-sized retailers were forced to sign 15, 20 or 25-year leases, and those rents are upward-only rent reviews, and they are stuck with them. Therefore they are stuck with the business rates off them. It is a very draconian system, but nobody ever envisaged the web. Even the famous Select Committees cannot be blamed for the web. It is not your fault. You did not do it, but it is a fact of life. I do not know if I am making any sense, but I make sense to myself and I make sense as a retailer.

Q292 **Liz Twist:** So what do we do? With the situation that we are now in, what do we do to make sure there is that fair balance between landlord and retailer, to make sure the high street survives?

Mike Ashley: What I genuinely suggest is that you empower the councils to turn round to the landlords. Do not forget there were really four stakeholders in this, if you like. There was the local council, the retailer, the landlord and the shareholders in the public company/retailers. Everybody has to put it in. If you signed up voluntarily—I could come to some of the places in the UK that I have come out of, because I have been doing consolidation, making it all more profitable and less is more—and you turn around and you say to me, "Mike, you have to work with the council; you have absolutely got to work with the landlord", and all of a sudden the landlord says, "I will give you 25% off", you can then, if you use me as a role model, which you will not want to do because it sounds like a contradiction in terms, turn around and say in this Committee, "Okay, how quickly could we see you open up 50 stores? You are closing stores. You are closing them, Mike. You are not opening stores. Let us not mess about. Every year you are chunking down the stores and you are shutting these stores that damage those small high streets the most. You are not shutting your Oxford Streets and your Bond Streets, no. I want to see you reinvest".

I would then turn around and say, "I want you to commit to doing the web tax so it balances the playing field, because then I have a future. I know those web retailers have to invest with me. They have to make the high street work with physical". It is simple as that. You now have a combination.

Q293 **Liz Twist:** How have you worked with landlords to renegotiate rent on House of Fraser stores that you are keeping open?

Mike Ashley: Besides Glasgow that we have bought and that we can invest in, we have literally taken the numbers and we say to them, "You do realise that these stores lose money", and they say, "We have information from the CVA and we know it is profitable", and you say, "But they have not put any central overheads in".

If you have a House of Fraser store taking, hypothetically, £40 million and making £2 million, they will say, "Look, the store makes £2 million". The landlord says, "You can pay the rent. You make £2 million. My rent is only", in their case, "£4 million. You make £2 million a year. I do not need to take my rent down". What about central overheads? What about the trucks that get it there? What about all the costs of our central overheads, the central marketing and everything? Let us just say that that is 10% of turnover. £40 million and makes £2 million. Add on the central overheads. It now loses £2 million. Two million minus four million—it loses £2 million.

The landlords say, "We do not believe you". I say, "I do not believe it either". There is nothing I can do about it. I talked earlier about accountants. Accountants are nearly able to make any numeric answer that you want them to make. They just are. They will say, "If you apply this and you do this and you do this"—and you do not even understand what they are talking about—"I can make this store loss-making or I can make it profitable. I will put exceptions in". What are they when they are at home? "It is okay; we can put an exception in because we are going to accelerate the shop fit because we decided it needs a shop fit". All of a sudden, in that year, you can make that store make a loss. They can also say, "No, these shop fits are quite wonderful. They are actually going to last another 50 years and we are going to slow down the depreciation". Accountants are able—this is their job, by the way—to move the numbers about pretty much at will.

Q294 **Liz Twist:** The question was about how you have worked with landlords to renegotiate the rent at House of Fraser stores. What you are saying is that accountants can make the figures fit.

Mike Ashley: Correct. I say to them, "I promise those are wrong. If you ask me for a prediction of what I think we are going to take, why do we not work on a percentage of turnover with a base rent? Why do I not pay you a percentage of turnover so, if I win, you win?" It is quite unique. It is not something that most landlords like because they prefer to have a guaranteed income. However, if the alternative is nothing, then they probably say, "We will have a base rent".

It is quite simple. If you agree, for example, a 6% turnover rent and you say that the base rent is 80% of the following year's turnover, and you roll it every couple of years, they are getting their base and you are getting your 6%. It is quite a fair mechanism to put in. When landlords begin to realise what a terrible state House of Fraser is actually in—not "was" in but "is" in—it begins to dawn on them about the investment needed to make that store the Harrods of the high street.

You turn around to them and say, "Okay, you have that store now. Make the turnover £40 million". Do not forget that, after central overheads, it now loses £2 million. It is 100,000 square feet. To refit that store, which has not been fitted for 15 or 20 years and which is out of date and not what the consumers want, costs £15 million at £150 a square foot.

By the way, if it was Harrods, it would cost an awful lot more per square foot. That is why I said "Harrods of the high street" and not "Harrods". Harrods would spend at least double that and some per square foot to totally refit the Harrods store.

Now somebody has to find the £15 million. That is a lot of money for a store that is currently losing £2 million. Now you see the problem. Then you say to them, "I tell you what. We will put our money in and we will fit the store. We will give you the most amazing store but you have to give us the percentage and you have to give us some rent free and help us pay for it and then everybody wins". By the way, I might have to sign a longer lease.

Q295 **Liz Twist:** I have written to you, Mr Ashley, as well, asking to meet with you about House of Fraser Metrocentre. Will you agree to meet with me today to discuss House of Fraser Metrocentre?

Mike Ashley: No, absolutely not.

Liz Twist: Why is that?

Mike Ashley: If I do it for one person, think of all the other people that I have let down. People keep thinking that I can just do these one-off things. They are not easy to do. It is not because I am avoiding the debate with you. We could get all the people from House of Fraser together—I am not being rude but there are 40 of you—and say, "I will meet a group of 40 but do you want to sit in the same room with the landlords?" I am happy to turn up but I bet the landlords will not be very happy to turn up.

Liz Twist: Okay, that is something that I would like to explore with you later.

Q296 **Chair:** That is helpful, Mr Ashley, that, even if the landlords do not turn up, you will.

Mike Ashley: As long as it is a group.

Q297 **Matt Western:** There was news over the weekend that there is widespread expectation that rents are going to crash in 2019 and that we may see a reduction of 20% as reported by the *Financial Times*. M&G and L&G are going to be hit quite hard. That would hopefully be good news for the high street, would it not? If that is going to happen, and if councils actually allow the landlords to change the approved purpose on that site to become residential or whatever, that will of course keep the rents up and will act against keeping retail on our high streets.

Mike Ashley: Now you are going to make me hated by every landlord in the country but you are absolutely correct. You are absolutely 100% correct.

Q298 **Mary Robinson:** Earlier you said that local councils have really tried to help you. That does suggest that there has been quite a big role of the councils there. Just how important to you is having that relationship with councils and working with councils? What have you been doing to try to work more closely with them?

Mike Ashley: It is very difficult for me to say it without naming people and it is not good to name people because there are always the people you leave out. What Matt just said there is exactly what has happened. It is a huge, key House of Fraser store and basically the landlord is saying, "We will pay a bit of empty rates, we will keep it empty and we will force the council to give us planning". That council turned around and said, "I am telling you that you must keep House of Fraser open. You must make an effort to keep House of Fraser open. These guys will help to keep House of Fraser open. You must get together and you must bang your heads together and do something". The council's input made it happen; otherwise, it was a closure. Sometimes these closures then actually do not become closures because of the councils saying, "No, we strongly suggest you do everything to keep that store".

Let us be realistic. The upper parts of the building could be residential or something like that. You can do more with the buildings than how they are currently used. I accept that House of Fraser cannot have 500,000 square feet in Birmingham. Honestly, you would need an Uber to take you round it. It is ridiculous. It is too much and too big. However, you do not want to lose the House of Fraser. What if you can convert the top two, three or four floors and everybody works together, and the council say, "As long as you keep this much retail—and we mean retail, so no cheating—then fair enough"?

I am telling you that councils are good. I have to say, because I cannot help myself, that the guys in Bath have done exactly that. For some reason I ended up going to see Bath. That is what happens when I go and see somebody that I should not. They had done exactly that. They had worked with the previous House of Fraser management and they had actually put the upper parts of the building to residential, which meant the retail was viable underneath. I went to meet them. They said, "We cannot give you any kind of subsidy that we realistically see getting back because that is a pound that we do not have". I ended up sitting with them going through their numbers and I could see their problem, where somehow we are going to come to some sort of deal whereby, hopefully, House of Fraser can survive and the council can carry on collecting a fair amount of rent and business rates.

I am not sitting here arguing for councils but they could be empowered, and my dealings with them so far have been pretty amazing.

Q299 **Mary Robinson:** It is obviously hugely important. It is not just financial; it is the way you are able to work with councils. What other things would they do that you would want to be involved with that would be helpful? You have mentioned planning.

Mike Ashley: I would love to see more park and ride. I would love to see more free car parks. I know that the council have to buy some private car parks and they do not have the money, but let us imagine this 20% off the web. That would give them some firepower, where you say, "With that 20% off the web, why do you not go and buy all those town centre car parks?" They could say, "By the way, if you go in a store and you spend over £10, you get a free two-hour stamp. You are allowed a maximum of three. You can have free parking for six hours". The council own the car park because they have got it from the web money. They can then subsidise the car park because it is for the high street; it is not for people to come and go to work on a train and all that fiddling and messing about and all that nonsense. If anybody does fiddle, I would just make the penalty 10 times the amount, because that would soon stop me from fiddling with anything. If you make the penalties big, you tend to behave better. You could then re-energise the high streets. We need better park and ride, and free parking but only if you have the stamps from the stores. This is simple little stuff.

I am no different to anybody else. When there are free glasses at the petrol station, I want them. I want them because they are free. I cannot help it. I want them. I definitely do not need free petrol station glasses but I do still want them. I do not care.

Q300 **Mary Robinson:** Human nature is what it is. You have come forward with a lot of different ideas today and been engaging in terms of how you would like to interact with councils. Just how supportive would you be of business improvement districts or any sort of business conglomeration that got put forward in order to improve the local area and to get people on to high streets?

Mike Ashley: I am not such a fan of that because it is too little and it gets very diluted. You guys have to grab the bull by the horns. You need some sort of cataclysmic event. You are so far behind. Imagine, five years ago, that a retailer was down 1% like for like. The web started to get hold. Four years ago—and do not forget it is compounding—it was 2% down. Three years ago, it was 3%. Last year, it was 4%. This year, it is 5%. I will give you a clue. What do you think is going to happen next year? That is exactly what is happening. It is. I am not crying for retailers that are my size and that make the money I make, because nobody in their right mind would. However, what you are trying to do is to make sure that these currently more successful retailers do not up stumps and leave the high streets. I understand what you are trying to do; I just think that I have a practical way of doing it. Help me or make me. It is very simple. It may be a combination of both.

Mary Robinson: Earlier on you said the high street was dead.

Mike Ashley: Yes.

Mary Robinson: It sounds like you have a lot of faith in its revival.

Mike Ashley: I have no education and I cannot do anything other than retail. I can see in our business that we would have to be made to do something or the high street will die. I cannot do anything else. I am wed to retail. I cannot suddenly become an investment banker. I do not have any qualifications. Retailing is in my blood so, to me, I can always see that there could be some light at the end of the tunnel. Remember, the biggest thing that has killed the high street is not the high street itself but the web. Be absolutely crystal clear: the web has killed the high street. It is not the local councils, or this, or that.

Maybe everybody has acted far too slowly. Maybe five years ago I should have been sat here, because I would have told you exactly what was going to happen, because there is no alternative unless you do something—some huge cataclysmic change—that is going to happen. It is just going to die and you are going to be left with Oxford Street and Bond Street. Outside of London, it will be like a ghost town. Sorry, but that is what it is going to be.

Q301 **Chair:** Very briefly, to give some scale of the issue in terms of rents, which clearly are a major issue that you are trying to grapple with, could you just give us some idea of what sort of rent reduction you would expect to see over the stores that stay open, and what sort of percentage drop you would expect to see?

Mike Ashley: Do you mean House of Fraser?

Chair: Yes.

Mike Ashley: In the base rents, it is probably going to be around 50%. However, you are talking now about the average. Some landlords will get nothing while other landlords will still keep 100%.

Q302 **Chair:** You will basically keep the business open as long as you just pay the business rates and they get nothing.

Mike Ashley: Yes, but you have the scale. Some people will get nothing and other people are actually going to be able to put their rent up. Let us talk about if I had a House of Fraser in Bond Street. I have to talk about hypotheticals or else I will get told off. Rents in Bond Street are still going up. You have to be very careful where you target this money. If you sat here and said to me, "That is very good; Knightsbridge needs to give people free money for shop fits", I would take you outside and think you are a lunatic. It has to be where the high street is failing. It has to be where the high street needs help.

Chair: So the rent reductions will be variable according to the circumstances.

Mike Ashley: Totally variable. Our rents will halve for House of Fraser and the only reason they are is this: who else is going to take the stores?

Q303 **Chair:** You obviously have a big interest in Debenhams as well. Is there any indication that Debenhams and House of Fraser might come to some arrangements in the future in terms of stores and joint use of stores?

Mike Ashley: Do you mean working together?

Chair: Yes.

Mike Ashley: Yes, but they should have done years ago. I told them to work together. They should work together. However, they have separate management and separate egos and it is not their equity. In actual fact, they will wander off and get another job somewhere else. Why on earth do House of Fraser and Debenhams not do more together now? Say it was buying together. It is very simple and they save on logistics.

Q304 **Chair:** Would it save on the number of stores? If you have Debenhams and House of Fraser next to each other, you might end up with one store.

Mike Ashley: You will end up with one anyway if the market is not right. You have to think about it. One of the reasons that House of Fraser failed is that it did not elevate itself. It did not change its proposition.

Consumers today are more into luxury brands. I am telling you: Harrods and Selfridges will have a good year. I am telling you that luxury brands are on the up. Teenagers and people today wear their wealth. We have a chain called Flannels that is not down, because it happens to be in the right place at the right time, because luxury is coming in. I openly tell people, "I am not crying. Do not feel sorry for me". You are not here to feel sorry for me; you are here to make me make a difference or to help me make a difference. That is the answer, in my opinion.

Chair: Thank you very much. I said to my colleagues, when you were talking about free glasses, that I will not mention free transfers. I will not go into that territory today. We have avoided that one.

Mr Ashley, you have told us that you are not a pantomime villain and you are not Father Christmas. You have still left us to decide whether you are the wicked uncle or the fairy godmother, and time will no doubt tell. Thank you very much indeed for coming to answer our questions today. We have gone through quite a lot of issues about how you see the high street developing and hopefully being successful in the future. Thank you very much indeed.

Examination of witnesses

Witnesses: Tony Ginty, Richard Collyer and Martin Foster.

Q305 **Chair:** Good afternoon and thank you very much for coming to join us this afternoon as our second panel. Could you just go down the table, please, and say who you are and the organisation you are representing today?

Martin Foster: Good afternoon. I am Martin Foster. I am the managing director of Lakeland Leather, a 15-store independent retail business located in Ambleside in the Lake District.

Richard Collyer: Hello. I am Richard Collyer. I am the CFO at New Look.

Tony Ginty: Good afternoon. I am Tony Ginty, and I am head of public affairs at Marks & Spencer.

Q306 **Andrew Lewer:** Briefly, to get us going, could you outline the biggest challenges that you face as retailers at the moment?

Tony Ginty: I will give you three. The first one is the major structural transformation that the retail sector is going through at the moment in response to changing consumer habits and the growth of technology and, in particular, online. That is by far the biggest one and is a major challenge in terms of both how we do business and the timeframe in which we do business.

The second one is that the sector is massively competitive and will remain massively competitive, both in terms of the types and formats of stores as well as, again, the growth of online players and the penetration of online and indeed, potentially, platforms that then become markets for other retailers.

The third one is that the sector is under considerable cost pressure, particularly if you operate in bricks and mortar as well as online. You have very big fixed costs in terms of property and in terms of people. Your level of taxation is fairly high. For example, the retail sector is the biggest payer of business rates. On top of that, you have a series of policy demands coming from Government that add to that particular cost pressure as well.

You have the combination of transformation, competition and cost pressures and the inter-relationship between the three.

Richard Collyer: I do not disagree with any of those comments. If you look at revenue, it is tough in terms of consumer confidence and what is happening with footfall. We agree that there are extreme cost pressures that need to be managed, all of which are impacting profitability and therefore the investment decisions that are being made.

Martin Foster: I would say the same. We have this perfect storm. We have rising costs. The people costs in particular for retailers have increased substantially in my own business. Since 2014, people costs have gone up 20% in the retail stores. We have a level of rent pressure. It is not as much as we did have but a lot of historic rents are high because they were set many years ago and do not reflect current market rents. We have a level of rates costs. Yes, we have horrible costs to bear and we have a falling level of shoppers. Footfall across the high street and across our stores is trending down.

Q307 **Andrew Lewer:** On from that, I wonder if you could talk about how interested you are in the health and vibrancy of the high street in which your stores, or some of your stores, are located. How relevant and key is that to your business model in the future?

Martin Foster: We are certainly proud to be a local retailer. We are a 1955 heritage business. Our first store opened in Ambleside and we are into the second generation and third generation of ownership of the business. We are invested locally in our stores. We encourage our managers to take part in local events and to be connected with our local community. It is really important for us.

Richard Collyer: I agree. We are committed to the high street. We are a market town business. We started 50 years ago in Taunton. Localness is actually one of our biggest strengths, and so a thriving high street is crucial to the success of our business.

Tony Ginty: I agree. A thriving high street is extremely important. They are obviously major community centres as well as economic centres. Two-thirds of our full-line stores actually sit in high streets so we are still a very major high street presence, despite all the transformation programmes that we are carrying out. We remain very committed to high streets.

Having said that, there is not a shadow of a doubt that, in the same way as retailers are facing a major structural transformation, town centres are also facing a major structural transformation. You are going to see different shapes of towns developing over the coming years. Indeed, if you do not see that, there will be significant problems for town centres themselves. The target is about reshaping and reinventing going forwards. In some respects, therefore, towns have the same challenges as we retailers, which is that the scenario has changed fast and we have to respond to that scenario or else be in serious commercial trouble. The consequence of that is that we have to reinvent and reshape our businesses, and town centres are in the same position as well.

They can do that. There is a way of doing it, although different towns and different areas are better equipped. Some are better equipped than others in terms of actually doing it. Inevitably, there will be both successes and failures, I suspect, but they do remain crucially important.

Q308 **Andrew Lewer:** Let us pick that up in terms of different places and different factors. This question is more to Tony and Richard than Martin, because you are where you are, Martin, which is probably quite a good thing in terms of where you actually are. Looking more broadly, what are those factors that you take into consideration when you do decide to close a store in a particular place?

Tony Ginty: We have very publicly said that we have a major store closure programme that we are pursuing, where we have indicated that we will be closing approximately 100 full-line stores.

There are two factors that go into that. The first one refers back to the structural transformation. When you have the structural transformation that is occurring in retailing, because people are basically moving from bricks and mortar and on to online, a much bigger percentage of trade has actually moved away from bricks and mortar and on to online.

If you take the Marks & Spencer store estate, you basically have an old legacy store estate, with stores being sited from 1910 onwards, if you look all the way through. Something like 35% of the Marks & Spencer store estate is pre-war. That gives you some idea of its age, the fact that it is not modernised and that it is actually sitting in high streets where it is very difficult to argue for an investment. We have to reduce our footage to reflect less sales in bricks and mortar. In particular, it is in clothing and home that we have to reduce our footage because, again, the conversion in our case is from bricks and mortar into online.

Currently, our online business takes around 20% of our clothing and home turnover, but we have a target to get it up to 33% in the next two years. That programme is about reducing the footage to reflect consumer patterns.

In terms of the choice of stores, there are essentially three things that determine a decision about whether a store closes or not within that programme. The first one is commercial and financial performance, so sales performance, profit performance, footfall and all the range of financial and commercial indicators that you would actually use. Normally in those cases, they are on a downward trend.

The second one is actually about what I would roughly call property issues. What is the nature of the property? Is it freehold? Is it leasehold? What is the length of the lease? What is the size of the rent and rates? How much would it take to invest to actually bring it up? There is a range of property issues that would factor into it.

The third factor is about how easy or otherwise it would be to redeploy our staff. Do we have stores nearby where we could do that? Indeed, do we have stores nearby that give our customers a chance for a bricks and mortar alternative? Those three elements determine the actual physical choice of the store.

Richard Collyer: For me, the customer will ultimately decide. The most important thing for us is that we are there for the customer and that the customer wants what we are selling. The customer will decide whether or not we will move. That is why it is so important that we get that right. If we can get a proposition right in terms of what we offer the customer, they will want to come through our stores and shop with us. It is then about the diversity whereby the customer can come to the high street and have the choice that they want. That is what is really important: how do we work to make sure that we keep offering the customer what they need and what they want from us on our high street? The financials will all fall off the back of that and that will drive our decision.

Q309 **Andrew Lewer:** You can change what you sell to reflect what is around you, but the people around you and the atmosphere of the town in question can change to better reflect or more accurately attract people to the sort of business offer and lines of clothing that you have. What things would change either for the better or to the detriment in a town centre that would influence your decision to move out or not?

Richard Collyer: We will use the fact that we have set up our online platform in 2007. How do we actually drive the customer to go back into the store? Online and offline is about making sure that the two work together. The first thing that the customer can see is that they can go and collect their product—click-and-collect—in the store. It is convenient to them. Most customers are within 30 minutes of a store. We need to make sure that we make a virtue of the fact that they can collect it rather than it being delivered to your home during the working day and then you have to go and collect it during the weekend. How can we drive the customers to actually see the value of that?

Then it is about making sure that it is convenient. Can they get free parking? Does it have the infrastructure within the town to make it a viable proposition that click-and-collect is something that they want?

Q310 **Andrew Lewer:** We have had other witnesses who have painted this picture of towns that have, in some sense, allowed a large department store to build a bespoke store especially for them; the business model changes and off you go and this big shell is left in the middle of the town centre. Do you recognise that as a valid representation of events or criticism, even? Separately from that, do you see it as part of your corporate responsibility to mitigate the effects when you feel you have to make a closure in one particular place or another?

Richard Collyer: Clearly, shutting a store is never the first choice. It is not what we want to do. We want to make sure it is thriving. Where we have to make an incredibly difficult decision, our first and most important decision is about our employees and what we will do to redeploy them. They are ultimately our best customers; it is about making sure we care for them as much as they can then care for our customer. Redeploying them is crucial to us. It is not something we want to do but we will always make sure that that is at the heart of any decisions that we make.

Tony Ginty: Undoubtedly, it is always a very difficult decision when you actually decide to depart a particular town that you have been in for quite a long period of time. The first priority is, quite clearly, to our colleagues that actually work in that particular store. If you take the 30 stores that we have closed so far out of that 100 programme, we have managed to redeploy over 80% of those particular staff. We are quite pleased with that in the sense that it has not caused a problem, if you like, or a large problem, in relation to the colleagues who actually work for us. That would be our first priority.

The second one is that we would seek, as far as possible, to ensure that the store does not remain vacant and that it is for literally as short a time as possible. There are two reasons for that, quite honestly. One is a commercial reason because, clearly, it is costing us money if a store remains vacant in a particular town centre. The other is exactly for the sort of look and feel of the town itself. Certainly, when we have discussions with local authorities, that is almost their first priority in relation to saying, "Okay, you have made the decision. You have decided to go but the key thing now is actually what happens to that particular unit". We often work very closely with the local authority in terms of actually trying to make sure that that property actually goes into use in some way or another literally as fast as possible.

Q311 **Andrew Lewer:** Martin, when a large store and a big player closes near one of your stores, how severe or how noticeable has the impact of that been on your business?

Martin Foster: I only have three stores that would come across, say, Marks & Spencer and such like. For example, if Marks & Spencer was to pull out of Kendal, that would have a shocking effect on that town centre because it is one of the very few anchor tenants for a town. Marks & Spencer, House of Fraser and Debenhams are real pulls into a town. Perhaps, more recently, a Primark or even a TK Maxx would be a draw for a town. If Kendal lost Marks & Spencer, that would be terrible.

I have a store in Carlisle directly opposite a House of Fraser store. Carlisle is already struggling as a city and, if that goes, it would have a very severe effect on my trade in Carlisle. I have a shop in the centre of York. It would have less impact in York because York is such a touristy town and it offers a different shopping experience to a traditional city. It would probably have less impact for me.

Q312 **Andrew Lewer:** In your future business model, seeing the people that come to your stores, it is for something; it is for an experience when you are buying something. It is slightly different than going to a place to get stuff.

Martin Foster: Yes. 70% of what we sell are leather goods, so leather jackets, handbags and luggage lines. The majority of the rest is womenswear lines. We need a regular customer that is coming to shop in our womenswear ranges. We still have a similar dynamic as New Look, for example. New Look closed in Carlisle and we actually benefitted from that closure in Carlisle, so it is not always bad news. You have just closed in Kendal, which is a bigger shame because Kendal is suffering a wee bit.

Tony Ginty: I would make the point that, if you are talking about town centres of the future and what the one thing is that they really must do, they must become end locations in their own right and diverse in relation to what they actually offer. Town centres cannot rely on retailing as they have done in the past. They will only succeed in the future if they get the right balance between retailing, leisure, hospitality, health, social care, services and indeed the residential links. If you do not get that mix and you do not give people a reason to actually physically go there, certainly from a shopping point of view, all they have to do is press buttons as an alternative and you are in serious trouble.

That is the type of conversation that we are having with local authorities in the high streets we are in. It is not about repairing the problems of today but actually future-proofing your town and reshaping it for five years' time.

Andrew Lewer: That is a good link.

Q313 **Mr Prisk:** Mr Ginty, can I follow that up? What you are suggesting—and we have heard it from elsewhere—is that retailing needs to become one element of a much broader range of uses.

Tony Ginty: Absolutely, yes.

Mr Prisk: How important is local political leadership to deliver that?

Tony Ginty: It is absolutely crucial. We have all said that there are two things that are required. One is that you need local leadership with a vision and an ability to collaborate and pull all the stakeholders together. The other is a strategy, which is about future-proofing. You need both of those things together. Local authorities that are looking to the future and that are putting in partnerships and are very much about collaborating with stakeholders stand a much better chance of actually delivering the things that need to be delivered over that particular period of time.

Q314 **Chair:** Can I follow up on that? We went on a trip recently to Stockton and to Darlington. In Darlington the House of Fraser store is going to stay open. They described to us how they had had positive discussions with House of Fraser and the local council had come to an arrangement. They tried to approach Marks & Spencer and they found out that you were going to close the store with a telephone call while they were on the train going down to meet you. Is that the way to treat a local authority that is trying to save a store in their town?

Tony Ginty: In terms of the announcements of stores themselves, we believe that our first priority is to actually tell the employees and colleagues who work there. We work on a principle of actually telling them first and then, immediately afterwards, all the stakeholders, including the local authorities, are told about it.

Q315 **Chair:** Would it not be helpful to talk to the authority before you tell them?

Tony Ginty: We often have what we would call informal discussions.

Chair: No, I am talking about possibly saving the store rather than just making a decision and saying, "That's it, gone".

Tony Ginty: Remember that Darlington, if you like, is an example of a 100-store closure programme that is about capacity. This is not, per se, an issue to do with local authorities. This is actually saying that Marks & Spencer has a legacy estate with too much physical footage and that it needs to reduce that in order to build a sustainable estate for the future.

In determining the stores, we would then obviously determine those that actually have the most problems in terms of their performance. It would have been very difficult, if you take Darlington as an example, for anything that the local authority could do to change the dynamic of that particular store's performance.

Q316 **Chair:** Perhaps there would have been things that Marks & Spencer could have done by not actually opening a big new store in an out-of-town shopping centre shortly before, which no doubt impacted on both Stockton and Darlington. You are actually responsible as a company for killing off those two stores.

Tony Ginty: What you end up doing and what you are trying to grow for a sustainable business is the right combination of stores. The difficulty, Mr Chairman, is going from a legacy position, which is what we have, to what will be an ideal position, which is actually about big mainstream stores in a region basically supported by smaller stores. The problem we have is going from where we are to where we do it.

We try our best to have conversations with local authorities but they do not always come to fruition in the way that local authorities or indeed ourselves would like.

Q317 **Chair:** Do you think you have any responsibility—not a legal responsibility but a moral responsibility—to a town where you have traded, in Stockton's case, for over 100 years and where you have taken a lot of trade, a lot of money and a lot of profits before saying, "Thank you very much. Goodbye", and off you go with nothing left except an empty building that actually puts other businesses under threat as well?

Tony Ginty: The first thing we would do is deal with the empty building.

Chair: Which you are not in either case, as I understand it. They are still empty, are they not?

Tony Ginty: At the moment but it is not long closed, in fairness. In a very difficult economic climate and in a very difficult trading climate, it is very difficult to actually do something with a particular property in a high street in that particular situation. Frankly, we will actually try to do something with that property as fast as is humanly possible. It is the circumstances in which we operate that will determine how fast that will be.

Do we put stores elsewhere and do they sometimes have an impact upon others? Absolutely, but that is part and parcel of building an estate for the future. If you did not do that, you would end up keeping the estate that you currently have. That, frankly, is guaranteed disaster in the current economic climate that you actually face.

It is the same with Warrington. People say, "You have built Gemini", which actually is not very far from Warrington, but it was absolutely the right commercial decision. If you look at the performance of Gemini, we have had to subsequently close Warrington. However, if you look at it in total terms in that region, including the servicing of Warrington, it has been very successful.

Q318 **Chair:** There is an issue there about whether out-of-town should be allowed to be developed in that way but that is a different question. So far, it is about getting the building back into use.

Tony Ginty: Yes.

Q319 **Chair:** Mr Collyer, what about your responsibilities?

Richard Collyer: Yes, we have a responsibility to the high street. We have a responsibility to our employees. These are incredibly difficult decisions that we have to make. In some cases, that decision has been taken out of our hands and actually the landlord has taken back some of the stores in towns that we would perhaps want to go back into. We have been approached by some councils to see whether we would be prepared to go back in. To the extent that we can get the right commercials, the right location and the right proposition, we will clearly look at it.

Q320 **Chair:** Have you gone back into any town yet?

Richard Collyer: Not yet. We would love to go back into Belfast. We have a number of places where we would absolutely love to go back and we are exploring those opportunities.

Tony Ginty: There are a number of locations that we have actually gone back into. It is back to this issue. We are closing full-line stores that have the clothing and home and food offer, so it is the all-singing and dancing one. Often what we now do is to put a Simply Food into those particular locations, because we have made the decision that we do not need the clothing and home footage in that particular town but that we can actually do a very viable business as far as food is concerned. Rugby is a classic example; we closed the clothing and home and full-line store with foods, but have gone back in terms of the food store. In Scunthorpe, we have closed the clothing and home and food full-line store and gone back with a food store. There is a pattern, if you like, of readjusting the estate and saying, "In any town, in any market, there is too much clothing and home because the consumer does not need it anymore because they have online as an alternative. However, food is often an option".

Q321 **Chair:** You talked about town centres having to change if they are going to survive. Are retailers, particularly large retailers with multiple brand offerings, going to have to change as well in the next 10 years and, if so, how?

Richard Collyer: Absolutely. They are going to have to become customer-focused. We are going to have to be obsessed about what the customer wants. We need to understand the customer. We need to understand what they want from us and we need to adapt to it, whether that is click-and-collect, giving them a different offering, the experience they are going to get or how they will choose to retail within the store when they come and shop with us. We need to adapt and that is what retail has done for many years and will continue to do as it evolves. There is a digital transformation taking place and we need to make sure that we are investing in that future, together with yourselves and landlords, to make sure that we are fit for purpose for that future.

Tony Ginty: I would agree. I have been in retailing for over 40 years.

Q322 **Chair:** Specifically, how will it be different in 10 years' time?

Tony Ginty: Online penetration will grow even greater than it currently is. You will see a greater use of platforms, particularly for smaller retailers in terms of giving them an option to do so. You will see changes in terms of formats and actually the retailers themselves and how they offer and what they offer. You will get much more multichannel than you had in the past. You will actually get pure online retailers also taking on property. Amazon is already looking at that particular process. Eight out of the top 10 online retailers are actually multichannel retailers, not pure online players. You will get a lot more mixture there.

However, whichever type of retailer you are, you will have to deliver three things. First, you will have to deliver convenience because that is what the consumer now demands; you make it easier for them to shop. Secondly, you have to continue delivering value, because that equally is important. Lastly, you have to deliver experience. That is the really big new one, which is actually about, "Why should I come into this particular town?" or "Why should I come into this shop?" It is not about one activity: "Give me 10 activities that I can actually carry out, and then it makes it worthwhile for me to do so".

Martin Foster: I would probably say the same. Retailers are actually really good at innovating. We like change because it gives us an opportunity to do something different. However, at the same time, change is expensive. In 10 years, for a start, 5G is only just around the corner and I think that will quite substantially change the way that people access data online and the way that they shop. There will probably be driverless cars and drones delivering parcels to your home. It will be a different world. That is all exciting and it is a chance to change and adapt to that.

What we are doing in my store is we are getting much more into the personal shopping, the service and the experience opportunity. We are very much an experience product anyway, because leather is lovely to touch, it is soft and it has a story behind it. We are just enhancing the way that we do that. Next year we are bringing fashion shows into our store for our customers. We will use modern technology like Facebook Live and Instagram Live to broadcast that, so that we start to connect not just our bricks and mortar proposition but what we are doing on social media and the internet so that our stores are fully engaged in e-commerce as much as they are in anything. It is changing. Those are exciting opportunities but we need a level of profitability to be able to invest in those and access them.

Q323 **Helen Hayes:** I want to turn now to the topic of business rates. We know that retailers are facing a range of pressures including competition from online shopping, cost increases, weakened consumer demand and high fixed costs, including both business rates and rent. Are business rates the most significant of these?

Tony Ginty: Business rates are a very significant cost. We, like other retailers, have actually said that the business rates system is not sustainable in the longer term. It is broken, effectively. It is a system that was designed for past retailing, not future retailing. It does not flex with economic performance, it discourages investment and retail pays a disproportionate amount. 20% of all business rates are paid by retailers. Every time we put an investment into the store, such as solar panels into the roof, we will pay extra business rates for it. There is a complete disincentive in terms of making investment in improvements.

Fundamental reform is therefore required. The problem is that no one at this particular stage can identify or agree on what the nature of that fundamental reform would actually look like. People have looked at sales taxes and land value taxes. All have advantages and disadvantages. Whilst the Government and the changes that they have made have been useful and very welcome—things like changing from RPI to CPI and from five-year to three-year valuations—we would, perhaps rather unfairly, describe them as sticking plasters. In some cases they are big sticking plasters but that is what they are—sticking plasters. The fundamental problem is that the business rates system itself needs to be re-thought through.

Richard Collyer: I completely agree with that. It is a huge cost to our business and there needs to be a longer-term vision. What is that longer-term vision, rather than the short-term fixes that we have seen to date? We need an overhaul, given that we are moving to an online and an offline model. We need to make sure that that works and we need to make sure that any change thinks about how a multichannel retailer really gets the impact and it does not just become a double tax.

Martin Foster: If there is one conclusion, let us conclude that rates just do not work. In my own business, which is much smaller than these guys, I pay £1.2 million a year in rent for 15 properties. I pay just over £500,000 a year in rates. I am not quite sure what I get for that £500,000, to be frank, but it is just totally out of kilter. I have one store where rates, as a percentage of our rent bill, are 62% and I have another where they are 28%. That is a massive variety. It does not seem to align to anything anymore and it needs changing.

Q324 **Helen Hayes:** What proportion of your turnover do business rates amount to?

Martin Foster: 5% of gross turnover.

Richard Collyer: Ours is 6.5%.

Tony Ginty: About 2%.

Q325 **Helen Hayes:** What is your response to the digital services tax proposed by the Chancellor in the Budget?

Tony Ginty: Clearly, there is an argument to address the taxation levels of digital companies because, manifestly, they pay less tax than many others, certainly in the retail sector itself. In some respects, we are not surprised that the UK Government, the EU and indeed the OECD are actually looking at this whole area.

Our own sense is that it is very complex and will need an international solution. In many respects, we may have to wait for the final solution for the work that the OECD does. However, that will take quite some time so, in the meantime, it is not unreasonable for individual Governments to say, "We want to try to do something in terms of levelling the playing field".

The approach, however, must stick to actually taxing the services of these companies, not goods sales. Otherwise, you will get into a situation that Richard has mentioned, whereby those of us who operate in both areas will end up with double taxation. It seems to me that what the Government have indicated—which is actually trying to find a way of taxing digital services, whether it is marketing platforms, advertising revenue and so forth—is the right way as opposed to putting another tax on goods, which will either lead to double taxation or indeed potentially find its way through to the consumer. That is the other danger with it.

Richard Collyer: I agree. We welcome anything that tries to align bricks and mortar and online. That is to be welcomed. However, as you heard in the earlier session, the question is about how you take that then to click-and-collect. As we drive the consumer back into the store, how do you make that work? That all needs to be thought through.

Martin Foster: We definitely need a level playing field. Anything that helps out is a positive thing. A lot of independent retailers, including my own, trade online. It is an important way for us to reach customers in areas of the country where we would not necessarily have an economic model to open a store. My own online business has grown over 40% in each of the last three years, so it is actually thriving and is about 10% of my total retail sales, which is quite small in the retail world but we would hope to grow that.

We have to be careful here, for independents who use that revenue stream to reach new customers and potentially find new areas of the country where we can open a store, that they do not become penalised as a result of that. However, at the same time, we need a levelling out of the cost base here because if we do not level it out in some way, we will not really have high streets.

Q326 **Helen Hayes:** Some of you seem to be saying, "Do not touch us because we trade on high streets as well as online". There are surely many different ways of potentially reorganising the taxation system for retailers both online and offline that would be fairer and that might involve an additional tax on a part of your business in exchange for a levelling off or a reduction in the part that benefits high streets and physical communities in which you are based as well. Are you pushing back on that proposal in principle?

Tony Ginty: I would actually agree with that. What I am saying is a very simple thing that actually says, "Let us actually just tax the online goods sales of all the online employers," will catch a whole pile of other retailers, including small retailers, who actually are not really online.

My own view is that you are not going to get the solution to this by playing with business rates by itself or digital by itself or corporation tax by itself. The problem is that business taxation itself is now not fit for purpose. It, again, was designed and developed in the past. You now have a quite different future and that future is going to be much more digital-orientated than it was previously. The only way you are going to do it is to take all the business taxation and, within that, look at how you put together—whether it is business rates, corporation tax or digital—a system that actually is fairer and more economic in terms of the way it goes forward. That means it will adjust, absolutely, where we pay. However, my slight concern is that it gets tackled almost in a silo attempt rather than a slightly more coherent way.

Q327 **Helen Hayes:** Mr Foster, what impact will the discount for small businesses on business rates announced in the Budget have on your business?

Martin Foster: It saves us £40,000 against the last rateable value increase. In reality, it is about £32,000 so somewhere in the region, against our current rates bill, of about 8%. It is nice to have. It does not change my view as to whether I would open a new store at the moment because it is only hanging around for two years and, to be frank, the cost base of opening a store is high. The capital cost of creating that store, the recruitment of a team and the marketing into that area mean that it is expensive to open stores.

Q328 **Helen Hayes:** Sure. My last question is this. You talked a little bit about how business rates are not working at the moment and how they might be reconfigured. Are there any other reforms that you would suggest in terms of a levelling of the playing field between online and physical stores?

Martin Foster: Shopping online is convenient. You get free deliveries and free returns. Is that right? Clearly, there is a cost to delivery and a cost to returns. When I visited our York store, it cost me over £20 to park. I could sit at home and probably buy things online and it would be delivered for nothing in theory, because it is absorbed into the margin of the online retailer because they run a different cost model.

Of course, the online model works in a different way. A lot of online retailers—certainly a lot of what we call pure-play retailers—will incur losses in their formative years because it is actually all about them capturing a customer and building a database. It is an advantage that they have; they can then monetise that model in later years. I do not get to capture the customer when they come into my store. I do not force them to give me their name and address and contact details when they buy something from us. There may be something around delivery costs and making that more transparent, so that customers think twice about, "Am I prepared to pay for that or will I venture into my town and maybe click-and-collect it or enjoy the experience of interfacing with some retail teams and touching some products?"

Tony Ginty: For us, part of the problem is that a lot of the taxation concentrates on inputs, and there are downsides of dealing with that, rather than outputs. Any sort of review or rethinking of business taxation needs to build that into consideration, as well as taking into account the much more digital world that we are going into.

Richard Collyer: I would make the same comments. The customer is going to decide, so we have to do everything we can to make sure the customer wants to go into the town to collect because it is free parking, it is convenient and a safe environment that they can be in with their family, shopping. Anything we can do to drive that customer back in has to be a positive.

Q329 **Bob Blackman:** Moving on to the cost of rent that applies to your business model, can you tell us what the impact of rent is on your business, and are rental levels increasing or reducing?

Martin Foster: The rent cost is about £1.3 million, which is about 10% of sales.

Q330 **Bob Blackman:** Are the rents going up or coming down?

Martin Foster: They are not really going up. I have had one rental increase, which was in York city centre. That was a renewal two years ago but, more recently, no. Most landlords are recognising that it is tough. Of course, that does not make it easy, because I am often locked into 15-year leases on a base that was negotiated when it was a different world, when there was not an internet that was taking 20% or 25% of sales. I do definitely argue over rent on properties—there is no doubt about that—but the ability for me to change that is really difficult. Even when we come to a five-yearly renewal, they are upward-only; all of my leases are upward-only renewals, so at best I can hold it static. They are not necessarily going up at the moment.

Q331 **Bob Blackman:** Is that a consequence of your original agreements?

Martin Foster: Yes.

Richard Collyer: Our rent is currently 10% of our turnover, and it has been reset.

Q332 **Bob Blackman:** Are you experiencing increased rents?

Richard Collyer: No, we are on a set rent now for our properties, subject to lease renewals, for the next three years.

Tony Ginty: Like my colleagues, rent is a significant issue; it is a significant cost. Again, we have a historical estate, so a lot of these agreements were made in the 1920s, 1930s, 1940s, 1950s, 1960s, et cetera, so in some cases you have quite long leases. They are often upward-only rents. It is then very difficult in terms of actually doing anything about it. Clearly we continue to have the conversations in terms of trying to get landlords to recognise the changing shape of the high street and the changing demands and challenges that are faced there, and in some cases they are prepared to have that conversation and think about it; in some cases, they are not prepared to do that. Clearly, there will be an active discussion going on all the time.

Where you would separate is the future. While you have slightly less control over the past, because obviously you have signed leases, going to the future, it is an entirely different scenario. There will be no long leases signed, and there will be lease breaks built in. The demand in terms of return on that particular property will be much higher than it was in the past, simply to reflect a much more challenging and demanding commercial environment.

Q333 **Bob Blackman:** Was this a policy of your company to sign long leases? The reason why I raise this is that on our recent visit to Stockton and Darlington, the store we were talking about has, we understand, 232 years still to go on the lease, and you are paying them a large amount of money every year, irrespective of whether the store is open or closed. What is the incentive on the landlord to do anything about that?

Tony Ginty: There are one or two very, very long leases, which are almost the equivalent of freeholds, quite frankly. We are still trying to track down the person who signed the 100-year-plus lease, but that is a different discussion. The reality is that there are some very, very long ones. They are unusual; that is not the norm, to be perfectly honest. In some cases where you have those very, very long ones, the compensating factor is that you have a comparatively lower rent than you would have had otherwise. In that case, what the landlord is looking for is the income stream over that particular period of time, so they may or may not be willing in terms of actually doing it. It does depend.

There is no doubt that, in a number of our stores, we have actually signed up to rents at a time when that seemed like the sensible thing to do. It is great, of course, in retrospect to now look back and say, "We would not do that now", and we would not do that now, but you are where you are and you have to do your best in terms of dealing with it, and then, importantly, make sure, going forward, there is an entirely different scenario.

Q334 **Bob Blackman:** You also mentioned the mix, and moving to, say, more food stores compared to clothing and so on. Are you actively pursuing new stores in that guise?

Tony Ginty: If you look at our later stores, they are much more leaning towards leasehold. If you take our full-line stores, for example, it is about 60/40 leasehold to freehold. That is on our full-line stores. If you look at our Simply Food stores, you are way into lease territory.

Q335 **Bob Blackman:** Apparently you have signed a lease in my constituency for a store, but there is a lot of conjecture about whether that store will ever be opened because of the current reviews and concerns you have, which is obviously a concern to my constituents and me, because a lot of people want to see that store open. There are concerns about that, but I will not press you on that particular issue in public, because I understand there is commercial confidentiality around this.

Where does the bargaining power lie in terms of rents? Is it with stores or is it with the landlords?

Martin Foster: It has certainly changed. A few years ago, if you wanted a store there was perhaps only one opportunity to take a store in a particular town. The landlord of that store would know that, so you would sign the lease with an air of anxiety but hope that it would work out. More recently, there are a lot more voids and there are a lot more landlords very keen to get a retailer to take space, so there is more capability now to negotiate better terms.

For us as a small retailer, the problem we have is that, if we are up against someone with a stronger financial covenant, we will sign a lease that is nowhere near as good as a bigger player would get, so it is not a level playing field in that respect. Generally, it is better now to be able to negotiate a lease than it was two years ago, or certainly five years ago.

Richard Collyer: I agree. We have 500 stores across the UK. Sometimes in the smaller towns we are the anchor tenant, so it has become a better conversation. At least the landlord is more willing to have that. This year I have learnt a lot about that process. Certainly, we have had a very open dialogue, particularly with our key landlords, to make sure we are working much more collaboratively, we understand the pressures that we are both under, and we are trying to both come to the same solution, which is about how we can make sure that this is successful both for their business and for our own.

Tony Ginty: The dynamic has changed. Historically, landlords had more power. However, in the current climate that is changing. It is much more now a conversation, if you like, and clearly, given the changing retail scenario and indeed what we as companies are doing, we are much more able to have a grown-up conversation.

Q336 **Bob Blackman:** How are you negotiating to share that risk?

Tony Ginty: It is the classic thing, is it not? It is a fair price but the right price. That is all subject to all sorts of interpretation.

Q337 **Bob Blackman:** That is obviously with break clauses.

Tony Ginty: Yes, absolutely. What you are trying to do in any lease that you now sign, in terms of the length of the lease, the return on that lease and the cost of that lease, is to make sure that it reflects the commercial reality. You will be hard pressed to determine, quite frankly, the shape of retail in 2030.

Q338 **Mr Dhesi:** Let us explore the company voluntary arrangements. Given that New Look agreed a CVA in March of this year, let us start with yourself, Mr Collyer. Why did you agree a CVA, and at that point how close was the company to going into administration?

Richard Collyer: Let me make this very clear: it was an incredibly difficult decision. It was not a decision that New Look took lightly. The simple fact is that New Look would have run out of money. We needed to ensure that we gave ourselves the time, and we got the financial and operational stability. The CVA was a process which enabled us to address the fixed cost base of the business. We were over-rented. Our rent bill was reduced by £35 million per year. We needed to make sure we tackled what you have heard is an incredibly challenging high street environment that we are currently in.

Q339 **Mr Dhesi:** I take on board what you have just said about over-rented stores, and that is exactly what your executive chairman said in the *Retail Gazette* in March 2018. He also intimated in the *Financial Times* article in June 2018 that too much stock was aimed "at the wrong customers". Do those remarks not simply reveal that the CVA was in fact a way for New Look to improve on a bad business model?

Richard Collyer: We are in the middle of a turnaround plan. The environment that we are in is incredibly challenging. We have said already that the top-line revenue is challenged, from consumer sentiment and from footfall. We have seen what happened with the depreciation of sterling and what that means to the material costs that we face, and, yes, we took some missteps within the strategy. We did go to the younger and edgier part of the market, and we needed to address that. That is part of the overall turnaround. The CVA is just one part of a bigger programme to address those things.

The first thing we have to do is address the cost base. That is what the CVA gave us the ability to do for our rent, but it is £35 million. We have publicly announced that we are looking at over £70 million of cost savings. It is the one thing I can do with absolute certainty in terms of how we save the cost. It takes a bit longer to get the product ranges back online and to make sure that is performing, and it is part of that overall difficult process that we have to do to make sure that we have the financial and operational stability to protect 15,000 jobs across the UK.

Q340 **Mr Dhesi:** I appreciate what you have just said, in that your company was apparently going to be running out of money, but you do appreciate that, as the Select Committee, our job is to look at it on behalf of everybody, including landlords. Your very own landlord, Frogmore, is quoted as saying that dealing with New Look had been "distressing" and that rather than accept a reduction from £200,000 to £120,000 a year, Frogmore decided to take back the lease and re-let the unit to Iceland at that current level of £200,000. They say that, when you found out, you made a counterbid of £210,000 a year for that same lease. That is not exactly a situation where you are running out of money.

Richard Collyer: I disagree with the facts. We are not going to get into tit for tat over it, but what happened was what happens in any negotiation. We asked why we were being kicked out. It may be that the landlord has to offer up rent-free or capital contributions, as part of enquiring as to why the store was being taken back. We did not choose to go out of it. We discovered that the rent was going up, and that was taken back as part of the whole process to the invest-co, and the board did not approve the rent increase.

Q341 **Mr Dhesi:** I am merely quoting the article in *The Times* in June this year.

Richard Collyer: I am just giving you the facts.

Q342 **Mr Dhesi:** I have a question to all of you. Why do you think landlords are complaining so bitterly about CVAs, including New Look's but also more generally?

Martin Foster: To some extent, nobody likes the fact they have invested in a property, it is achieving a rental level that they feel is a financial return on that property value, and then suddenly a retailer can no longer afford to sustain that level of rent. Nobody will like the fact that you go back to that landlord and say, "Look, I cannot afford that level of rent. We need to do something about it", and a CVA is one means through which larger retail groups have been able to restructure.

Q343 **Mr Dhesi:** That is exactly what the British Property Federation, Revo, the Hark Group and others have reported to the Committee. Mr Ginty, what do you think?

Tony Ginty: I would agree with the point that Martin has made. We do not use CVAs so I have no personal knowledge and cannot add to that, but clearly it is one mechanism for dealing with a difficult situation in terms of the performance of an individual store.

Q344 **Mr Dhesi:** You would never use a CVA.

Tony Ginty: We have not used CVAs at all.

Q345 **Mr Dhesi:** What about you, Mr Foster?

Martin Foster: I have not used a CVA but we have closed stores, and we have used administration processes in previous retail businesses I have been involved in to achieve that. For a start, retailers hate closing stores. It is the last thing we ever want to do. If you are locked into a lease that is creating losses within a number of stores, and that is putting at risk the bulk, you need to do something to restructure. Because leases are financial instruments, there are only really a couple of ways that you can sort it out. You either do a CVA, an administration, or you go to the landlord with a pot of cash and try to buy yourself out of the lease. In reality, if you are making losses you probably cannot do the latter.

Q346 **Mary Robinson:** I would just like to gather your views on the impact of work undertaken by councils and business improvement districts on high streets and their viability. How closely do you work with councils when you have stores that you are closing, that you are trying to save, or just generally?

Tony Ginty: We work very, very closely indeed. If we are talking about trying to ensure the future vitality of town centres, we know that local government is an extremely important player in that particular process, both in its own right but also as a convenor in pulling other stakeholders together. There is a constant discussion about what does and does not work in relation to a particular town centre. There are onward discussions about things like access, transport, public realm, safety and security. There is a whole range of things that matter in terms of making an experience good for a consumer coming into the town. Our local store managers will be having those conversations on a fairly regular basis.

As far as BIDs are concerned, again we are supporters of BIDs. They have their value. In some cases they are probably more narrow than might actually be the case, and they perhaps could be extended, but a process that defines a problem, comes up with a strategy for actually dealing with it and a plan of delivery, and an obvious cost in terms of doing it, is something that we understand, because it is about saying, "Here is the problem and this is how much it will cost. Are you in on that particular issue?" We judge each of them on their individual performance, so if we think the objective is good, the strategy is good in terms of delivering it and the cost of doing so is sensible, then we will support them as well.

The other thing perhaps to say about BIDs is it might be time to consider their extension to property BIDs as well. That operates in London and works very, very well. It does seem to us that there is no reason why landlords or property owners should not be involved in BIDs, because without it, you are left with hoping that they just volunteer to do so. The London experience is a good example of the fact that they can work.

Richard Collyer: I agree with everything you just said. We have 161 BIDs; we are part of that. Again, we evaluate each on its merits.

Martin Foster: We have had no contact ever with a council for any of the towns where our 15 stores are. That is perhaps a wee bit strange. I have often wondered how councils gauge the strength of the high street and how it is performing. It is such an easy thing to get retailers to submit how they are trading, so that they have some kind of measure and can analyse whether it is getting better or worse, or whether there is risk in particular parts of a town or not.

We have four stores that are involved in BIDs. I am a supporter of BIDs. It is very much down to the individual people who are concerned, because they often have to put a lot of energy and effort into it. Financially, they make no sense to me. Take York and its budget; it is £800,000 from its BID. For Kendal, it is £140,000 from its BID. Which of those two cities needs the most help? Kendal needs the most help out of those two. Can you do a lot more with £800,000? Yes, clearly you can. If you added those two together and divided by two, I am sure you would get a lot more effort and a lot more regeneration through Kendal than you would lose through York, for example. I do not quite get the way that they are financed. That probably needs looking at.

Q347 **Mary Robinson:** That would be an improvement. At the moment it is in the borough boundaries, if you like, that the BIDs would generally be raised. Would extending it be something that you would see as an improvement, or is it just the way it works locally from your experience?

Martin Foster: They need re-looking at. They seem to work in isolation. In Cumbria, there are four different BIDs in operation. Perhaps they link together and share experiences; I do not know. I know that the BID that they have in Chester seems to be a wee bit more proactive than the one in Northallerton; those are two areas I have seen. I do not see them sharing ideas, sharing resource and working across platforms, but clearly in both of those towns they just do not get enough revenue to genuinely make a difference.

Tony Ginty: The key thing about BIDs is additionality. They only work if they add something extra, as opposed to replacing local government. The second thing is that there are issues in certain regions in terms of things like transport infrastructure, which is very important as far as retailing is concerned. A greater level of co-operation between individual local authorities would be massively helpful. There is a tendency to look after your own patch, which we fully understand, but there are some things, quite frankly, that transcend those patches themselves, and therefore it is important. In that sense, if you take Andy Burnham in Manchester, that has been very useful in having the 10 local authorities for which there are specific discussions you can have, but then also being able to have a discussion on a more regional level, which is quite good for some of the bigger issues like transport infrastructure.

Chair: Thank you very much indeed for coming and answering our questions this afternoon.

Examination of witnesses

Witnesses: Maria Horn and Simon Emeny.

Q348 **Chair:** Thank you very much for coming to give evidence to the

Committee this afternoon. You have had quite a long wait but probably learnt a little bit in the process; I hope so, anyway. Could you just say who you are and the organisation you are representing, please?

Maria Horn: I am Maria Horn. I am chief operating officer of Nando's UK and Ireland.

Simon Emeny: I am Simon Emeny, the chief executive of Fuller's, based in London.

Q349 **Mr Dhesi:** Let us look into the current state of the sector. We have heard about the challenges facing retailers. Are those generally shared by the food and beverage sector? What sector-specific challenges do you face?

Maria Horn: We are part of what is defined as casual dining. I can only really speak for Nando's but, if I talk about our business, we have been in the UK for more than 25 years, with 400-plus restaurants. We have grown sustainably over that time. We have a very successful brand. We have a very big customer base. At this present time, whilst we do understand that the sector is challenged, as we have been, we are in a relatively strong position. We have never closed a restaurant, in 20-odd years, and have no line of sight to ever doing so at the moment.

Q350 **Mr Dhesi:** What do you attribute your performance to?

Maria Horn: We are very focused on a few things that are very important to us. We have food that people love, we have teams that people love interacting with and we have beautiful spaces that we bring people to. We create communities and we create a sense of feeling at home. We are an experience and we enjoy doing that. I guess people are responding to that and we are responding to them.

Q351 **Mr Dhesi:** Mr Emeny?

Simon Emeny: In a competition, we have been around for 173 years, so it might slightly trump you, but I do think Nando's is fantastic so well done.

What is really interesting, listening to the previous conversation with retailers, is that our challenges are very different. At Fuller's, our challenge is not whether we can entice customers to come out to our pubs. Fortunately we are reasonably successful at what we do. The biggest challenge we have is around taxation, in the fact that pubs in this country pay the third highest duty rates in Europe. The tax that we have around business rates is crippling for our industry.

The second biggest challenge that we have as an industry and as a company is around recruitment and development of people, because unfortunately UK hospitality, for many, is not seen as a long-term career option, and that is something that we need to overcome as an industry.

Q352 **Mr Dhesi:** Very briefly, is Brexit having any impact in terms of staff?

Simon Emeny: It absolutely is, already. The day after the referendum result was a tough day for the many colleagues who work in the business from the EU. Ever since then, it has become harder to find skilled kitchen staff to work in our outlets.

Q353 **Mr Dhesi:** Is that likewise for you?

Maria Horn: We are probably slightly different. We employ 16,000 people. We are worried, and have been worried, for the considerable number who come from overseas who work with us, as well as our own team. Recruitment is challenging, particularly in transient areas of population. So far, though, we are remaining successful. When we open restaurants, we have a considerable number of people who do apply to us.

Q354 **Mr Dhesi:** This Committee, by the way, has been looking very much into the health and vibrancy of high streets, and we had the pleasure of going to the likes of Stockton and Darlington last week, to savour their delights. How does the health and vibrancy of the high street affect your pubs and restaurants in the evening economy? Also, does it actually matter to you, given that you are operating mainly outside of normal working hours?

Maria Horn: One of the things we understand about Nando's is that we are often the second reason; I guess the phrase is "the bridesmaid to the bride". We operate well where people congregate together. There is usually a main pull—a cinema, a retail park or high street—with mixed communities. We are never the sole reason that people go. Thriving public spaces and thriving high streets are really key to us. Really key is the frequency with which people choose to go, and the access—both public transport and their own private means—to get there. All of those things are critical, and of course we care about those communities.

Simon Emeny: People go to our pubs for a variety of reasons. They may be working in offices nearby, they may be using the high street as a transport hub or they may live nearby. The reason it is equally important to us is that if you take away the proportion of our customers who use a pub because they are shopping, because of the issues I spoke about earlier with taxation, it really can make sites marginal. If high streets become shopping ghettos and simply become full of offices, it will affect the viability of our business, so we do have a vested interest in high streets returning to some sort of vibrancy.

Q355 **Liz Twist:** In a future high street with less retail, as we have heard, what role do you see in the future for your restaurants and pubs?

Maria Horn: I can only really talk about today. Where you see regeneration on the high streets, whether that is individually led or whether that is community-led—we have been part of a few of those, including Oldham, and we are moving into Eltham next year—it is about what happens to those communities and what is invested in them, to create the spaces that people continue to come to, and create reasons for people to come together. Sitting here today, we are invested in reasons why people choose to come together and why they would go to places often. Those are the important things that, from our point of view, need to be taken into account.

Liz Twist: It is about community.

Maria Horn: It is about community.

Simon Emeny: I would give exactly the same answer. Pubs and restaurants, over generations, have had to evolve, and the high street will have to evolve because of the power of the internet. What goes into those voids is of more long-term interest to us, and whether those spaces are then filled with areas of community interest. The pub really is the hub of the social community. It is an experience that cannot be replicated online. We really have a long-term interest in the high street.

Q356 **Liz Twist:** It sounds like you are almost sitting and waiting for the high street to develop. Do you have any ideas about how you could play a part in that?

Maria Horn: We are always interested in what developers are doing. We are very interested when they take brownfield sites and how they choose to evolve them. A brownfield site can turn into a community space quite quickly. Where councils and town councils have thought about the empty buildings they have and have been quite creative in that, we are very interested in being part of that, because we will add but we are not the main draw. We are always interested and we are always talking. We are intending to continue to grow at the pace that we do, so we are invested in future thriving spaces.

Simon Emeny: Over the last five or six years, we have regenerated a number of redundant high street properties by working with developers, investing in that property and reopening it as a pub. The challenge for us over the last couple of years regarding doing more of those has been the impact that business rates have had. We are keen to open more high street pubs if we can make the numbers work.

Q357 **Liz Twist:** Do you see anything the Government could do to help you to become part of that renewed high street?

Maria Horn: It was mentioned earlier. The plans need to be joined up to work out who can help bring people to spaces, whether that is about parking, access, buildings or safe spaces for people to be in. That is actually really important. People need to feel they can walk around and travel around, and that landscaped areas are beautiful and safe. We have a lot of young people who visit Nando's; we want to be able to provide the safe spaces for them. Where you can join up the various bodies that are involved in that, and have a plan for a town or an area, that is a very positive step.

Q358 **Liz Twist:** It was suggested to us that in future pubs and restaurants might become places where you can drop off parcels, have pop-up shops and things like that. Do you have any thoughts about that? Is that something you would consider doing?

Simon Emeny: If you look at pubs today and compare them to 10 years ago, and compare pubs 10 years ago to 10 years before that, the great reason we still have a surviving industry is because pubs have evolved.

Some of those ideas are already happening. Pubs are the hub of the local community. Pubs now open for breakfast, pastries and coffees. Having high street pubs as collection points for internet shopping is going to struggle to work, because the amount of storage space that some of these goods take up would prohibit that. I am very confident about the pub remaining a social hub. In this generation and this era, people are going to need to socialise more, and that is still something that the pub can do. A modern pub provides outstanding fresh food and great coffee, and that evolution will continue in the next era.

Maria Horn: It is not part of our plans at the moment.

Q359 **Teresa Pearce:** We heard a lot about business rates earlier. Simon, pubs are very different in the way they are rated. What proportion of your turnover does go in business rates?

Simon Emeny: Within the sector, pubs account for about 0.5% of all rateable turnover and actually pay 2.8% of all business rates. Pubs are disproportionately taxed when it comes to business rates. As a result, in our business we pay just under 5% of our total turnover in business rates.

Q360 **Teresa Pearce:** What about you, Maria?

Maria Horn: We pay about 2.5% of our total turnover on business rates.

Q361 **Teresa Pearce:** You heard quite a lot earlier about a digital sales tax. I suppose you could get Deliveroo Nando's, or whatever, but most people have to come to you to get what they want. What is your view about what sort of reforms could help your industry and level the playing field?

Simon Emeny: One of my greatest fears with business rates and high street closures is that local authorities still need to raise business rates. It is a very important form of taxation. There will potentially be growing pressure on businesses like ours, which remain physical and remain part of those communities, to pay more business rates, and that is simply unsustainable. It is an outdated system.

Q362 **Teresa Pearce:** It is a property tax in a digital world.

Simon Emeny: Exactly, and it does not encourage companies like ours to invest for the long term. I am not here to tell you how to reform it, but it is clearly something that was designed in a completely different era.

Maria Horn: There is nothing Simon has said that I disagree with. We are very thoughtful about how that will evolve. There were some comments earlier about understanding where the product comes from. Interestingly for us, we are a very physical presence. The restaurant is the place that all the food is made, whether it is taken out or eaten in, so we will still be a property business, and I would echo Simon's comment: it feels like an outdated tax, but what replaces it for the future needs very careful thought.

Q363 **Teresa Pearce:** It is interesting what you say. You open restaurants in places where people come, so if the high street withers, then we will only find you by cinemas, one would imagine.

Maria Horn: One would hope not. We are on 174 high streets.

Q364 **Teresa Pearce:** It is an interesting point you make, Simon, that if the high street does die and you are the only ones left that people come to, there could be more business rates on you, so there needs to be an overhaul of some sort, or a root-and-branch change.

Simon Emeny: I have seen what has been announced in the last Budget and it provides some sort of relief, but it really is tinkering around the edges. It is a view shared by everybody in my sector, but also in retail, that the business rates system needs a root-and-branch overhaul.

Q365 **Bob Blackman:** Moving on to other issues about rent, what is the impact of rent on your businesses?

Maria Horn: Rent is 6% versus 2.5% of our turnover. It is not the biggest cost, by any means, but it is obviously a significant cost. Having talked to my colleagues before coming here, it is a really difficult one to answer, because we choose our sites well and we will not overpay, so, as well as the rent and the fit-out cost, we will be very thoughtful about everything that I described earlier: are people coming? Are there reasons for people to come frequently? Is there parking? Is there access through public transport? The rent is one element of a number of things that we consider.

Q366 **Bob Blackman:** Are you then looking at the level of leases, at the length of time, at break clauses? You have said you have never closed a restaurant, so you have never got to that terrible set of circumstances. You must have that in mind in case it does happen.

Maria Horn: Genuinely, no. When we open a restaurant, we intend to be there for as long as that will be. Talking to my property director colleague, we do not sit there and think, "We can break it at this point". There are obviously things that go into the agreement, but our intention is to be part of that community for as long as we can. We have not closed a restaurant; we have always stayed in the same place; we have not moved it around the town either.

Simon Emeny: We are slightly different, because we are a predominantly freehold business. Our suspicion of landlords and rents precludes us from taking too many leases. Rather like you, when we do take a lease, we do that with our eyes wide open. As a consequence of the property market at the moment, we are taking shorter leases and we are having more break clauses, but they are an important part of our property portfolio.

Q367 **Bob Blackman:** We see this all over the country with pubs. Restaurants are definitely longer leases, but a lot of pubs are owned, as you say, by freehold. That freehold property is often extremely valuable, and, because there is often a car park associated with it, it can be knocked down and replaced by a large development of flats, for example. That seems to be going on all over the place. Is that something that is in your mind?

Simon Emeny: No, our reason for buying the freehold of the property is because, being 173 years old, as I said earlier, we want to be in control of our future destiny. If you enter into a short-term lease with a landlord—let us just take a station site—and the site is outside of the Act, and the landlord wants to take that site back, you are going to lose a very profitable pub. If you are in control of the freehold, you are in that site in perpetuity, including the Red Lion, just around the corner from here.

Q368 **Bob Blackman:** Indeed, as well as a pub very close to my constituency that is extremely popular.

Simon Emeny: That is why we take freeholds: because it puts us in complete control in the end.

Q369 **Bob Blackman:** In terms of bargaining power, do you think the bargaining power is now more with you as a company coming in, saying, "Look, we have a good reputation. We are very careful when we choose somewhere"? Do you have power to determine what that lease and rent level is going to look like?

Maria Horn: It is fair to say that we are a very attractive tenant, given the history that I have shared. We genuinely will walk away from a prime location site if the deal is not right, and developers and landlords know that. We are wise in how we choose to go into properties and developments.

Saying that, the climate now is that people want us more than ever, because we do offer a lot of security, so we are probably being offered more sites than we were in the past. We will still pick wisely. We will still think about all the things that are important to us, because we want to be there for the long term, not just for the short term.

Q370 **Bob Blackman:** What changes need to be made to any leases to encourage you to come and put one of your restaurants somewhere?

Maria Horn: It is fair to say that there is nothing obvious from our point of view. We do work in a way that works for us. I can only speak for Nando's and I can only speak for what we do; it is hard to comment in any other way. It would be speculation.

Q371 **Bob Blackman:** I understand that. I am talking directly about Nando's. Simon, what changes need to be made to encourage the growth of pubs, because at the moment we are generally seeing a reduction of pubs?

Simon Emeny: We are. We are also seeing a flight to quality. The good pubs are getting investment. I come back to the issue with taxation. One of the other drawbacks of the current system of business rates is that, if we spend £1 million improving a pub, which we will often do to regenerate a Victorian property, we then subsequently get hit by another return on business rates on that. If you were looking for areas to be regenerated, some sort of longer-term relief on capital developments on business rates would be a good idea.

Q372 **Mary Robinson:** Looking at the role of councils and how you work with them, how closely do you work with councils in areas where you have pubs and restaurants? Where they intervene, to the extent they can intervene, in your business to help the local area—because you mentioned communities, place, et cetera, being important—how successful are they? What would you like to see more of?

Maria Horn: It is interesting. When I was thinking about coming here, I was chatting to the team. We work very well with local councils on the planning applications and the processes. It works, so we have neither pushed nor pulled, either way, if that makes sense. We have a process that works. Referencing the earlier conversation, we have been part of BID processes and are very supportive of those. Beyond that, that is probably where we are connected. The council comes to us largely through agents, rather than anywhere else. We are neither sitting here, going, "We do not want to work with councils", nor going, "We should". That is just the reality of where we are, but we would welcome any support.

Simon Emeny: I would echo that. It is mixed. When it works best, the local council understands the role that the pub plays in the local community and sees the pub as a force for good.

Q373 **Mary Robinson:** How could BIDs be improved? What could they do more? Is there anything that it strikes you they could really invest in? It could be crime or antisocial behaviour. Are there things in your areas that would strike you as being really important?

Simon Emeny: I do not have anything else to add on that.

Maria Horn: We are signed up to about 50, and we will always sign up if we believe we can be part of that community's regeneration, but they are quite specific and they are quite local, so it is really hard to give you an overall comment. We sign up because we believe they work; we get good feedback and things happen. Listening earlier, I do not know how connected they are to each other or what they are learning from each other—I genuinely do not know—but they do work for us. They are positive.

Q374 **Chair:** In terms of the local council and what they are doing, we have been to visit Stockton and Darlington, and in both cases they were saying they were looking now to reduce the footprint of where retail happens, recognising that it is slowly deteriorating, with empty shops appearing all around. They are trying to consolidate it into a smaller area. Have you been involved in any local plans that have attempted to do that? Is that something you would generally be supportive of and sympathetic to?

Simon Emeny: We have not. We only operate in the southern half of England.

Chair: Councils there are doing similar things.

Simon Emeny: We have not come across that.

Maria Horn: I am genuinely not aware of where we may be involved in that particular example. I know we get involved when town planning thinks about how to regenerate sites that are very close to what we are probably all referring to as the high street—the main walk—but connecting spaces so that it becomes more connected. We have been very involved in a number of those, certainly through the developers. It is through the developers more than the councils at this stage.

Q375 **Chair:** You have not been involved in any local plan discussions at all.

Maria Horn: No, not that I am aware of.

Q376 **Chair:** Is there anything else you think the council could do, or is that it in terms of helping for the future?

Maria Horn: Where councils are working with bodies to regenerate and create thriving and vibrant areas, we are very supportive. Anything that they can do to keep doing that, we would be supportive of.

Simon Emeny: I would echo that.

Chair: Thank you very much indeed for coming to give evidence this afternoon. Thank you very much.