

Housing, Communities and Local Government Committee and Treasury Committee

Oral evidence: High Streets and Town Centres in 2030, HC 1010

Wednesday 19 December 2018

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Members present: Mr Clive Betts (Chair); Mr Steve Baker; Colin Clark; Mr Simon Clarke; Mr Tanmanjeet Singh Dhesi; Helen Hayes; Kevin Hollinrake; Stewart Hosie; John Mann; Nicky Morgan; Teresa Pearce; Mary Robinson; Wes Streeting.

Questions 469 - 556

Witnesses

I: Rt Hon Mel Stride MP, Financial Secretary to the Treasury; Mike Williams, Director of Business and International Tax, HM Treasury.

Examination of witnesses

Witnesses: Rt Hon Mel Stride and Mike Williams.

Chair: We will make a start on this joint session of the Housing, Communities and Local Government Select Committee and the Treasury Select Committee, which is on Budget 2018 measures relating to the high street and business rates. Thank you, Minister, very much for coming to be with us this afternoon. You are probably aware the HCLG Select Committee is doing an inquiry into the high street and what it will look like in 2030. That fits into the evidence we are collecting with regard to that as well.

Before we begin, can I ask members of both Committees to put on record any particular interests they may have with regards to this inquiry? I am a vice-president of the Local Government Association.

Nicky Morgan: My husband is leader of Charnwood Borough Council.



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Teresa Pearce: I employ two councillors in my office.

Kevin Hollinrake: I have interests in a business that has quite a lot of shops up and down the country.

Mr Dhesi: I am a councillor, as per the Register of Members' Interests.

John Mann: My wife is responsible for economic regeneration on Bassetlaw Council.

Mary Robinson: I employ a councillor in my team.

Mr Clarke: I employ two councillors in mine.

Q469 **Chair:** Thanks for that. Minister, thank you very much for coming. Perhaps, before we begin, you could just introduce your official for us.

Mel Stride: I will leave him to do that.

Mike Williams: I am Mike Williams, director of business and international tax at the Treasury.

Q470 **Chair:** In our inquiry on the high street, a lot of organisations have made reference to business rates; most of them are probably not exactly enthusiastic about the current system. The gist of what they have said to us is that the current system is not fit for purpose. One phrase that stuck out was that it is an analogue system for a digital age. How would you respond to that?

Mel Stride: The Government recognise that high streets, town centres and retailers, in particular, are under a great deal of pressure. There are several reasons for that. There is a structural reason, which is that the way in which consumers are choosing to shop nowadays is changing. If you went back to 2008, you would find that a little less than 5% of retail was conducted online; today that figure is nudging up towards 18%. That steep increase is likely to continue.

There are also issues around congestion, the layout of high streets and various planning issues around that, and, indeed, there is the issue of the costs that businesses face, of which business rates is a significant component, which we at the Treasury recognise. That is why, particularly in the recent Budget, we made some fairly significant moves in terms of lightening the burden of business rates, particularly on smaller retailers, those that are typically populating high streets and town centres, as well as setting up a Future High Streets Fund to help those areas and retailers to transition into a situation where they are better able to support themselves in the face of the kind of structural changes that I have outlined.

Q471 **Chair:** What was in the Budget—and I am not being critical of it; we will come on to that later on—were matters of particular alleviation, rather than addressing any fundamental problems with the whole system. That was the bit I was trying to get at. Do you think the system now is in need of a more fundamental review? Are you looking at any alternatives, to do



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with maybe basing the tax on revenue or land value? Looking at rental values is a pretty archaic system, is it not? It is something from a bygone age. Is that a fair description of the current system?

Mel Stride: We did have a fundamental review of business rates back in 2015-16. The conclusion from that was that there was no ideal way of taxing businesses. There are pros and cons to the current rates system. The pros would include the fact that it is a very stable tax. If you look at the revenue it has raised over the last 20 years, it has been consistently around 5% of the UK tax take, or about 1% of GDP. It is a very difficult tax to avoid, because clearly it is very difficult to disguise the fact that you have a property and you are operating a business from within it. It expresses a very important link between raising revenue from a business in a particular locality and local authority and the purposes to which that tax is being put to use.

You mention, Chairman, specifically a land value tax, for example. That would have the advantage, for instance, in that, under the current rates system, there is an inherent disincentive to improve business property, because that adds to its value and you will therefore pay more rates. Under a land tax system, clearly that would not be the case. It is also the case under a land tax system, because you are taxing the land and there is, after all, a finite quantity of that, that you would be encouraging, perhaps, people to make better use of that space, to build higher and get more floor space in as a consequence. There are some advantages, but there are distinct disadvantages, which would include complexity and the issue around how you actually value the land for those particular purposes, given that there is very little data on which to base it. You could very easily end up in a situation of massive appeals and a lot of litigation and complication.

In the short term, the likelihood that the Treasury is going to be looking at doing something radical of that nature is quite slim.

Q472 **Chair:** Have you looked at other countries? I think Denmark has gone to a land value system, and seems to have done it without a great deal of difficulty.

Mel Stride: Yes, indeed. When we assess all taxes—we keep them all under constant review—we would look at international comparators as well as what is happening in the domestic economy.

Q473 **Chair:** Another concern has been raised with us, not in this inquiry but in a previous inquiry into business rates retention, by Paul Carter, the leader of Kent, who is chair of the County Councils Network. He made the very strong point that one of the problems with business rates, if they go up by CPI, which is the current linkage to annual increases, is that demand for basic council services, particularly in social care for both the elderly and people with disabilities, is rising far faster than inflation. If councils are increasingly relying on business rates to fund those services, that revenue is simply not going to keep pace with demand, is it?



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Mel Stride: The revenue that local authorities accrue, of course, is not solely down to business rates. You will be aware of council tax and various other funds that come in from central Government. On the CPI point and the multiplier, that move from RPI to CPI, in terms of the indexation of the multiplier, is effectively a relief to those businesses. That relief over the next five years is going to be worth £5 billion. Recently, as you will know, we brought forward by two years the point at which that switch from RPI to CPI kicked in, i.e. to April 2018. That alone was worth £2.3 billion. When it comes to indexation, the way the Treasury would see it is that this is softening the costs of business rates to businesses.

Q474 **Chair:** That point is a fair one. Coming back to the other side—to local government and the money it receives—from 2020 business rates will become an increasingly important part of the funding of local government, with the 75% retention. We will come on to the details of that in due course. If councils are relying on business rates and council tax, which is effectively linked, unless you go to a referendum, to somewhere around the rate of inflation—I think it is 3% for next year—that is all local councils will have. You refer to other sources of funding, but the RSG is actually scrapped from 2020, so there is not any other source of funding. Where do councils go?

Mel Stride: The rationale for business rates retention is around aligning the incentives for local authorities to go out and do things on their own and with others—and indeed with other local authorities, where they might pool business rates—to make sure that they grow businesses and that they have a business-friendly environment. As a consequence, they share in the business rate growth that comes as a consequence of that. That is a very good thing. Pre-2013, if you go back in time, when we did not have any of that retention, you had a situation where you had to ask the question of what the incentive was for a local authority to be business friendly. They might as well just let it slide and wait for central Government to step in.

Q475 **Chair:** We will come on to business rate retention in due course, but if business rates linked to CPI and council tax linked to 2% or 3% inflation is all councils have, plus a bit of money coming in from extra business rates to do with growth, that is not going to fund care services in the future, is it? That is the reality.

Mel Stride: What will fund local authorities will obviously be what happens at spending reviews and the different funds that go into local authorities.

Q476 **Chair:** But they will not, because RSG is going to be scrapped.

Mel Stride: Let us wait and see, when we get to that point, what decisions are taken in spending reviews and so on. As to the point about the CPI and RPI, the important point here is that this is a significant relief for business, valued at about £5 billion worth of relief over the next five



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years. To put that into context, business rates in their totality are raising around £27 billion a year, so it is a very significant relief to those companies.

Q477 Nicky Morgan: Thank you both for being here today. Mel, you started by talking about the announcements in the Budget having lightened the burden. Do the Treasury and the Government accept that business rates place quite a burden on both retail and also businesses generally?

Mel Stride: Yes, as with any cost that a business has to bear. There are many reasons why we have tax, and many of them are very good reasons, but you cannot escape the fact that they impose costs. When they are imposed upon businesses, they are a brake on growth, on employing people and on the general state of the economy.

We believe that we need to do whatever we can, first to lighten the financial load, as I have described, but secondly to assist those high streets and town centres to transition in the face of the changing nature of consumer behaviour, such that they are offering something that is sustainable. That is where the Future High Streets Fund comes in, which is £675 million, with a taskforce to back it up and a bidding process that will see that money coming out to those communities, so that they can reinvent themselves to be in a better position going forward.

Q478 Nicky Morgan: What I am getting at is this. Most of us as constituency MPs would say that we want to see successful high streets and we want to see businesses coming into our areas and being incentivised to grow. If the Government are having to lighten the burden being imposed on business, is the Government's policy wrong? If the Government's answer is to keep introducing constant reliefs, but only for periods of two years, which do not really allow businesses to plan for the future, would that not tend to suggest that the whole system has to be looked at?

Mel Stride: There is no area across the tax terrain in which there are not arguments for and pressure for more relief or lower taxation. Take income tax; we have done a huge amount to take people out of income tax altogether by raising the personal allowance. Look at duties on wine and spirits; our Scottish colleagues here will recognise the fact that we have managed to freeze duty on whisky for another year, for example. There are always going to be these pressures. There is no escaping the need to raise money to fund our public services.

We recognised in this Budget that for smaller retailers in particular, which often lie right at the heart of our communities, we wanted to do something to give them some additional support for the next two years. That amounts, in total, to about £900 million, so it is a very significant injection of reliefs.

Q479 Nicky Morgan: When the Treasury was considering reliefs in the pre-Budget period, did you or officials consider introducing things such an empty property levy, to encourage landlords to get buildings back into



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use as quickly as possible, therefore generating additional rates for the local authority and the local area?

Mel Stride: I know that MHCLG is going to be trialling a register of properties that are empty, so that it is easier for those who might wish to occupy them to identify exactly who the owners of the property are and move it forward on that basis.

The current incentives, such as they are, I personally think are slightly perverse. At the moment, you can have a property occupied and, as long as it is occupied for a six-week period, you can then get a quarter's worth of no rates applied, when the property is empty. That is a kind of disincentive to the landlord to get it occupied as quickly as possible.

In answer to your question, yes, a whole variety of different aspects of that and other matters were, of course, looked at closely. I know that MHCLG is looking at this closely at the moment.

Q480 **Nicky Morgan:** There might be more to come.

Mel Stride: We always keep all taxes under review. As a former Treasury Minister, you will know that.

Q481 **Nicky Morgan:** Yes, we get that. Another suggestion that has been made is potentially allowing businesses to flex the amounts they pay. The same overall amount would be paid over the 12-month period but for some businesses, particularly retailers, Christmas can be, for example, a period in which they are bringing more cash into the business, so it might be easier to pay a little bit extra at that point, and then to perhaps pay less at other times. Of course, in other parts of the country, where shops are very much seasonal, it will be summer that is much busier in terms of trade, so people might be able to pay a little bit more then, rather than paying over another quieter period of the year.

Mel Stride: As things stand at the moment, businesses are in a position where they can pay in a variety of different ways, i.e. in one lump sum or they can spread it, typically over 10 or 12 months. I appreciate your question is aimed at a seasonality aspect. That is something that I will certainly think about and take back to the Treasury, but we have no immediate plans to suggest that.

Q482 **Nicky Morgan:** There was a recent decision by the Court of Appeal that no additional business rates can be charged on ATMs. There are quite substantial sums of money to be repaid through business rates rebates. What financial assistance is the Treasury going to give? Has it been asked to assist in terms of funding those rebates? What analysis has been done about the income lost on that?

Mel Stride: This situation occurred as the result of a lost legal case. The VOA is obviously in the driving seat on that. It affects about 12,000 ATMs that are attached to rateable properties; that is out of a total of about 70,000 ATMs across the country. The position is that the VOA is seeking



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to have this referred to the Supreme Court, so it can get final clarification on the issue. Given that it is in the legal process, it is probably not advisable for me to comment any further than that.

- Q483 Nicky Morgan:** I have just one further question. The Budget document from October of this year talks about the Government cutting bills by a third for retail properties of rateable value below £51,000. It goes on that that will benefit up to 90% of retail properties, subject to state aid limits. You will be aware that there are a number of larger retailers that might have a number of properties across the country, many of which might have the rateable value below £51,000, but, as I understand it, from work done by Altus Group, more than one in three—740 out of the 2,052 in total—had a rateable value of less than £51,000 and were in principle eligible for the new retail relief, but because of state aid rules they are not getting it. What analysis has been done by the Treasury to look at that situation, where people in principle are eligible for the rate relief announced by the Chancellor but because of state aid rules they are not getting it? What can be done to change that situation?

Mel Stride: Just to clarify, the situation is that state aid cannot exceed €200,000 in any three-year period. That would apply to any relief that any business is receiving for any reason, not just business rates themselves. You are right that there will be some businesses that, while individually the outlets may qualify, would not qualify on the basis that collectively they are receiving more than €200,000.

As to the precise analysis that we may or may not have done, I will turn to Mike to see whether he wants to comment.

- Q484 Nicky Morgan:** Has that been challenged at all? There is a concern among the retail sector that that interpretation of state aid rules is not actually correct.

Mel Stride: I will allow Mike to comment on that in a second. From my point of view, it has not as far as I am aware. The rules are the rules. We are members of the European Union and therefore we abide by the state aid regime as an EU member state at the moment.

Mike Williams: I am not aware that that has been challenged either. We have had other reliefs that have been similarly subject to the same state aid constraint. This is not novel. Again, I do not think there has been a sustained challenge to those. The businesses affected, which are denied relief that others get because of the state aid limits, do not like that, understandably, but as the Financial Secretary just said the rules are reasonably clear on the accumulation of aid and what the ceiling is on the aid that you can get.

- Q485 Nicky Morgan:** Finally, as part of a broader discussion about our membership of the European Union and the carrying over of the state aid system, is this the sort of area that might be looked at, or are we just going to carry on with the same state aid rules?



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Mel Stride: That is as yet to be determined. If I had a very large crystal ball, which was very accurate, I might be able to give you an answer. It just depends on the negotiation.

Nicky Morgan: We will call you back and ask that.

Mel Stride: Come back next year, maybe, and we will see.

Q486 **Mr Dhesi:** It has been reported, Minister, regarding the recent changes to business rates within the 2018 Budget, that no consultation was made with local authorities. Is that true? If so, would that not have been a sensible measure to take?

Mel Stride: There was no direct formal consultation exercise aimed specifically at local authorities. That is correct. However, the Sir John Timpson review will have covered local authorities to some degree. He held a number of evidence sessions around the country. There was also some survey work that was carried out at the same time.

When you are dealing with matters that pertain to the Budget and you go through that process, it tends to lend itself to the Treasury, quite rightly, keeping a lot of that to itself, rather than going out and talking to the world about what its plans are or might be. MHCLG, as a Department, is very closely involved with the sector, generally, and all of that kind of feedback is involving local authorities through MHCLG, on this matter and many others. That feeds into the Treasury in the normal way.

Q487 **Mr Dhesi:** The Treasury also estimates that the 2018 Budget measures will reduce business rates bills for 500,000 small retailers, but that has been described by experts as “nonsense” and “wildly misleading”, because almost half of those small businesses already qualified for the small business rate relief. Do you still stand by the Treasury’s analysis?

Mel Stride: Okay. What I would say to that is that the 500,000 figure would be approximately the number of retailers that are at or below £51,000 in terms of rateable value. You are absolutely right that within that group there will be a number that of course are below £12,000 rateable value, in which case they are going to qualify for 100% small business rate relief. We have already discussed the issue of state aid. There will be others that may not qualify on the basis of potentially otherwise breaching the state aid limit, and there will be others where a local authority decides to administer this particular additional relief by way of invitation, rather than automatically applying it, where some of those businesses may not apply and therefore may not benefit from it.

If your question is whether all of the 500,000—i.e. all those that are a rateable value of £51,000 or below—are going to benefit directly, the answer to that would be no.

Q488 **Mr Dhesi:** Minister, would you at least concede the point that the discount offered within the 2018 Budget for small retailers just adds an extra layer of complexity to an already complex system?



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Mel Stride: I would say that it adds an extra layer of relief. If I am a small business and the Government say, "Next year and the year after we are going to cut your rates by a third", I would feel pretty good about that.

The issue of complexity is an interesting one, because it is quite rightly typically levied at every kind of tax that there is. People often cite the length of our tax code overall, for example. There are always good reasons, in a sense, for some level of complexity, because it is driving something that is more targeted, in many cases. Here, we are trying to carve out smaller retailers, because we recognise that there is perhaps a particular social value to having small retailers in high streets. Unfortunately, this ability to target, carve out and be sensitive to the way that markets work inevitably leads to more legislation and a bit more complexity.

The overarching view that I would have is that, if you look at business rates, it is simply the multiplier times your rateable value, less whatever reliefs there are. That is what you pay. That, as a concept, is relatively straightforward.

Q489 **Mr Dhesi:** With regards to the discount, there was a time limit introduced. Why was that introduced? What will happen to the discount at the end of the two-year period?

Mel Stride: The discount is for 2019-20 and 2020-21. It is for two years. We have not said what we will do after that time. We will clearly wish to appraise how high streets are doing and businesses are doing as we approach the end of that period, and then we will take a decision as to what we then do going forward.

Q490 **Mr Dhesi:** Why was it introduced only for only two years? What was the thinking behind that?

Mel Stride: It was just to allow a period in which we would have both some relief for the high street but also a fund that would allow those high streets to look at how they might transition. Two years seemed a reasonable period over which to do that, while giving us the flexibility of not necessarily being locked into the same thing for a long period of time. If we had made it five years, you might ask the question, "Why make it five years? It might not be appropriate after five years. Should you not have had a shorter period and reviewed it?" On balance, that was the approach that we decided to take.

Q491 **Mr Dhesi:** After two years, there is still a question mark as to what will actually happen and whether that stays.

Mel Stride: Yes, in the sense that we have said that it will be in place for those two years, but that does not rule out, at any point or at any future fiscal event, us taking a decision as to what will happen after that period.

Q492 **Chair:** You said that local authorities might either apply the reliefs or



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inform businesses that may be eligible for them. The Federation of Small Businesses is anxious to know that all businesses that may be potentially eligible for these reliefs will be given information about them. Is that going to happen?

Mel Stride: Absolutely. There is extensive guidance available online, on the Government's website, as well as liaison with and information flow to local authorities. Clearly, at the end of the day, there is always this balance between what the centre does and what the more local players do.

Q493 **Chair:** Will the centre be giving guidance to local authorities that they should actively make contact with businesses and inform them directly?

Mel Stride: Yes. There is already guidance out there, in terms of defining who is in scope for this particular relief and the types of businesses. There will be quite a lot of discretion on the part of local authorities, not to work beyond the guidance but to interpret the guidance in the way that they think is correct. There will be and there is very clear guidance on this.

Q494 **Teresa Pearce:** Good afternoon. We have taken a lot of evidence from high street retailers telling us about business rates and how high a cost there is to trade in the high street. They have pointed to the fact that online retailers can have their warehouse somewhere where values are really low and it is not a level playing field. Is the introduction of the digital service tax an attempt by Government to redress that balance?

Mel Stride: The digital services tax is not going to be hypothecated directly to high streets. There is no formal link between what is raised in that area and what relief we may be able to apply in the high street business rate context. The digital services tax is about certain types of digital businesses that generate substantial value in the United Kingdom as a direct consequence of the interaction of UK users and those digital platforms; this would be the likes of search engines, social media platforms and certain online marketplaces. It is about making sure that, where that value is generated in that way, the UK taxes that value appropriately.

The current international tax regime, which relies on taxing rights for a particular country in the context of a multinational operator, as is the case with the businesses we are looking at here, tends to allocate those taxing rights on the basis of physical presence—staff, buildings, where the management are, where the risk is taken, where the intellectual property rests—and that does not capture the kinds of businesses that I have described. We are moving to a different kind of tax, and it is about making sure that those businesses pay a fair share.

Q495 **Teresa Pearce:** The aim of this digital services tax is to tax the currently untaxable, rather than to redress the imbalance for people trading on the high street.



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Mel Stride: There is a link between the two, in the sense that any tax that raises revenue means that you do not have to raise the revenue somewhere else. To that degree, it allows us greater flexibility right across the tax terrain.

Q496 **Teresa Pearce:** I do not know if this is a question more for Mike. It has been estimated that the in-scope activities will raise £400 million a year. How will in-scope business activities be defined? If you have come up with that number, you must have some idea. For instance, TV and music subscriptions are out of scope. Will games companies be in scope? How have you decided on that number? You must have decided what was in scope.

Mike Williams: The revenue estimate was certified by the OBR. It is based on, as the Minister said, targeting online marketplaces, social media platforms and search engines. They are the three broad categories. As you rightly say, at the margins we have to decide where precisely we draw the boundary. We have a consultation out at the moment, which closes on 28 February, the purpose of which is to look at those difficult cases that could fall on either side of the boundary, so that we can consult with businesses and other interested parties about where to draw the line.

There is a challenge with legislation of this sort, where you are targeting particular activities, which, as the Minister said, are those where there is value creation for the users. If you are doing that sort of targeting, you have to get the definitions right, and that is what we are working on.

Q497 **Teresa Pearce:** Could you talk about "UK user"? What would you define as a UK user? Is it someone resident in the UK, someone accessing content in the UK or someone using a UK IP address? How do you define a UK user?

Mike Williams: Again, we are consulting on that. At the core, it is people who will be in the UK on a pretty permanent basis. There is no perfect definition. If we go and use our mobile phones in France, we pay French VAT and French people making visits to the UK pay UK VAT, whereas, if you applied strict theory, you would apportion that. We need to come up with a credible mechanism for measuring that, which does not, say, suppose that a visitor to the UK from the US for three days counts as a UK user.

Q498 **Teresa Pearce:** The consultation closes in February. When will we get more detail, because this is meant to come in a year later? It is not a lot of time, really. How long after the consultation do you expect there to be the level of detail that we would need?

Mike Williams: The legislation is going to be included in the next Finance Bill, so the Finance Bill after the autumn 2019 Budget. In the normal course, we would consult on the legislation in draft some months before that, so that on the one hand people can see what has been



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included, and equally they can see what has been excluded following the consultation.

Mel Stride: Can I just add one thing that is relevant to this? We have said that by 2020, in the absence of a multilateral agreement—and we are working through the European Union and the OECD—we will take unilateral action. If we made very significant progress in either of those two other avenues, that may obviate the need to bring in our own digital services tax.

Q499 **Teresa Pearce:** It has been announced today that France is going ahead in January, without waiting for that. It might be something we have to do.

Mel Stride: Yes. Spain and others are also looking at doing that.

Q500 **Mary Robinson:** Minister, the revaluation that was due to take place in 2015 was delayed until 2017. What was the impact of that delay on businesses?

Mel Stride: That is a very difficult question to answer. I am not sure that there is an answer to that, because we do not know what the counterfactual would have looked like and what the impact would have been of a revaluation in 2015 had we gone ahead, because obviously we did not. I am not sure that we would be able to make a comparison with what might have happened had we done that.

Mike Williams: That is right. Ratepayers and other businesses affected by this would note that, in a period where there is divergence in rental values between different parts of the country, or indeed between different parts of the same local authority area, the longer you leave it before you revalue, the longer the business will be faced with paying at an old figure that has become outdated. That is the argument for moving to more frequent revaluations.

Mel Stride: On Mike's point, if you look at, for example, 2017, when we did have a revaluation, you can compare that to the valuation in 2010, which would be the one prior to that, and look at different parts of the country and how rateable values have changed. In London it was up by 23% whereas in the north-east it was down by 1.2%, and everybody else was somewhere in between. The whole idea of going to, for example, more frequent valuations is to make sure that the kinds of alignments that Mike has touched upon happen more frequently and it is fairer in that sense. You get less divergence over time between what should be the case and what is the case at that moment in time.

Q501 **Mary Robinson:** We heard from the hospitality industry in the HCLG Committee that the impact on pubs and hospitality generally was quite sharp. They had seen increases in some cases of 24%. Was that foreseen?



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Mel Stride: It was recognised. This is before my time at the Treasury, but it would have been recognised that there could have been quite significant divergences, which is why the transitional funding of £3.6 billion came in, and this mechanism by which those that gained perhaps were not able to gain as much as they might otherwise have done, but those that were losing were protected to some degree from the downside.

Q502 Mary Robinson: It is going to be moved to every three years from 2021. There have been concerns raised that the revaluation every three years will hasten the decline of the high street, because it will place a high administrative burden on retailers. What is your response to that?

Mel Stride: High streets should welcome having the revaluation more frequently, for the reasons I have given. For example, in an area where the underlying trend is that rateable values are actually going down and business may have a correlation to that but they are finding it tougher, it would more quickly level the playing field and reapportion where the rates are falling due across the country.

In terms of additional administrative burden, to the extent that businesses looked at their rateable value more frequently, because they are being reassessed more frequently, had an issue with it and therefore wanted to challenge it using Check, Challenge, Appeal, which we might come on to in a minute, it is arguably more work in that sense, but that would be outweighed by the business and economic benefit of doing it more frequently.

Q503 Mary Robinson: Moving seamlessly on, then, to Check, Challenge, Appeal, it is now in its second year and there are still reports that the system is not fit for purpose. In fact, in August it was reported that HMRC had seconded a team of experts and civil servants were battling to improve the appeals system. Is the Treasury working alongside the VOA to get this right?

Mel Stride: Absolutely. I have meetings with Melissa Tatton, and it is my responsibility in the Treasury to have oversight of the VOA. What we need to remember here is what the world was like in this context back in 2010. Between 2010 and 2017, there were 1 million appeals lodged, and many of them were purely speculative. This was a system that allowed you to not give any reason as to why you thought that your rateable value was inappropriate; you would just lodge an appeal on a speculative basis. So many of them just simply said it should be reduced to £1 per year. It has inevitably taken a long time to get through that particular backlog.

Check, Challenge, Appeal is a far more thorough approach to the process. That came in in April 2017. There has been an action plan, as of May of this year, to get through the backlog as quickly as possible. We are confident that by September of next year we will have cleared the entire backlog from 2010, with the exception of those cases that are going



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through the courts, where litigation is the case. We are moving into a better place.

Q504 **Mary Robinson:** Speaking to pubs and restaurants, pubs in particular feel that they have been particularly hit by the way that the valuation officers valued them. They feel that the Check, Challenge, Appeal that they can use is not actually very helpful for them, because in some cases they are a little fearful that they may be uprated. Is this something that you have come across? Have you considered it?

Mel Stride: Where an appeal is made and an uprating results, is that something you are familiar with?

Mike Williams: That, at the very least, is not very common, not least because, in forecasting the revenues after a revaluation, we have to take into account that the effect of appeals will tend to reduce the business rates that the local authorities collect.

Q505 **Mr Baker:** It is good to see you, Minister, however distantly. You mentioned the multiplier. The EEF mapped out the changes in the multiplier since 1990, which show that the fall in 2017 was very small compared to previous years. The EEF has speculated that fixed business rates yield is being shouldered by fewer and fewer properties, and that is why the fall was so low. It has also speculated that the Government are trying to raise the same level of income from fewer and fewer properties. How would you respond to that speculation?

Mel Stride: In terms of where the multiplier is set, as you know, it is there to maintain the real value of the rates that are being collected. The whole exercise of revaluation is a fiscally neutral one. The purpose is not to increase the total amount that is being taken by however many are paying it.

In terms of the numbers that are shouldering the burden, I do not know that centrally we have that data, because the businesses themselves, and the numbers and everything, are generally held at the local authority level. There is some evidence around the edge of that that might suggest that there are more companies in recent years paying rates, rather than fewer.

Mike Williams: I think at the margins that would be true, but you have to equally take account of the businesses that have been exempt from business rates. Do you include those or do you treat those as outside the number?

Q506 **Mr Baker:** In terms of perceptions, is there something you could do to answer this particular speculation and explain whether it is or is not the case that a fixed yield is being collected from fewer companies?

Mel Stride: It is a very fair question. I would certainly be very happy to go away and write to you, Steve and the rest of the Committee, on that point.



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Q507 Mr Baker: Looking at PwC 100 Group data, I was rather surprised to discover that, when you look at the taxes borne by retailers on an average basis, in 2018 47.4% of the tax paid on average by retailers was business rates. I suspect that that is very little known. The next highest tax take was 23.5% for employers' NICs. It was then corporation tax at 18.5% and other taxes were 10.6%. Could you explain how the Government are alleviating the burden on bricks-and-mortar retailers of business rates?

Mel Stride: I would divide this into two halves. There is what happens, say, if we go back to the 2016 budget and up to the last budget. The measures brought into effect there have resulted in £13 billion of relief over the next five years. They include, for example, the switch from RPI to CPI, as we have discussed. They include making the small business rate relief permanent and doubling the threshold from £6,000 to £12,000, so we brought another 650,000 small businesses out of rates altogether as a consequence of doing that. There was the problem of the so-called staircase tax, which you will all recall. Through legislation, we have now ironed that out and we are working on making sure those who were caught by that are not dis-benefited.

I have also mentioned transitional relief. When we had the 2017 revaluation and there were these potentially quite strong movements in additional rate burden and lessening of rate burden, we smoothed that out. In that period, we also brought in £300 million worth of discretionary rate relief funds for local authorities to use. That is the bit that has gone before.

The other bit is what happened at the Budget, and that is this third off for those below a rateable value of £51,000. Let me put it this way. I am very aware of the earlier point that was made about the numbers. A significant majority of those retailers in high streets will benefit from that particular measure. There is then the Future High Streets Fund, the £675 million, for which bids will be happening in the not-too-distant future. For the first round, I think we will have certainty by around March 2020 as to what money is going out of the door to various local authorities and others to move forward on that particular basis.

A huge amount has been done. There is always more to do. As the Tax Minister, you tend to be a rather friendless individual, I am afraid, because there are very few people who ever congratulate you for administering taxation. But I want taxes as low as possible right across the board. I would like to see lower tax burdens on business, but we have to see it in the round. We have an economy to run, and we have to be prudent and sensible in our stewardship of that. We have public services to fund and it is always a balancing act.

Q508 Mr Baker: Certainly, we would congratulate you on all the measures you have outlined. Many of us on our side have been happy to promote them. When I look at this chart and see that almost half of the burden on retailers is business rates, I have to ask you if you think that is the



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system we want, where so much of the tax burden on a retailer comes through business rates, such a high proportion.

Mel Stride: We need to keep looking at this space. We need to keep doing what we can. The other thing I would say about retailers, and in fact businesses in general, is that we should not overlook the other taxes they face, for example corporation tax, which was reduced from 28% in 2010, down to 19% now, and will continue down to 17%. I accept of course that is only applicable to businesses that are making profits. I understand that and I appreciate that rates accrue irrespective of whether you are profitable. For those that are—and most are; otherwise they do not survive—that reduction in that other tax, for example, is a considerable benefit.

Q509 **Mr Baker:** I am trying to imagine whether, if one were to reduce that fixed cost of business rates accruing whether or not profitable, that might give the high street a greater opportunity to be more entrepreneurial, take greater risks and see what worked on the modern high street. I suppose I am just pressing you, perhaps a bit beyond the brief.

Mel Stride: We need to keep bearing down on those costs, absolutely. I accept that. We need to keep looking at that. We need to keep the economy going. We need to keep generating the growth that is going to allow us more space to do more of this kind of stuff. We also have to look, for example, and MHCLG is consulting on this, at the planning environment. If we are going to envisage a high street or a town centre that is rather different in the future, with struggling retailers or retail space replaced by residential or by other business use classes, we need to have a more flexible planning system in order to do that. There are all these different components.

Let me put it this way: even if we substantially removed business rates, I do not think you would take away the fundamental change in consumer behaviour and you would still have a lot of pressure there. It is not all about business rates; we have to do more. That is what the Budget was also about, making sure, at the centre, we can provide the money and the tools to allow local communities to try to reinvent those high street spaces.

Q510 **Mr Baker:** Could I ask Mr Williams to perhaps tell us a bit more about this move from RPI to CPI, what impact that has had on the multiplier and whether it is the impact you expected.

Mike Williams: Moving from RPI to CPI reduces the amount you are expecting to collect in business rates. Obviously, that is then reflected in an entry in the Budget scorecard, so in a sense that is gone. Because, as you have recognised, the same pot, reduced by that effect, is then collected by the businesses that pay, the multiplier is driven by the sum of the rateable values of the businesses that are in the system. It is more driven, then, by the impact of that.

Q511 **Colin Clark:** It is very good to see you, Minister, all that way away. The



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business rate retention scheme currently allows local authorities to keep 50% of the rates raised through growth. My colleague and I are both from Scotland. Obviously, we have a slightly different system, which I will mention later. From April 2021, 75% retention will become the norm across the board. This move will create a greater level of uncertainty of funding for all tariff authorities. Do you think this is a fair system, or is there uncertainty as to whether there are unintended consequences?

Mel Stride: It is the right direction of travel, for the reasons I gave earlier. That is an alignment of the incentive for local authorities to go out there and encourage business, to be business friendly, to reinvent their town centres, their high streets and so on, to look after local amenities and all those things that make for a business-friendly environment. This move towards business rate retention is absolutely at the core of making sure that happens. We should not overlook the fact that, in the way that I am sure that will continue to be successful in the future, by growing business we are growing the size of the cake and there is more to divide up. Some of that will go back to the centre, but a lot of it will stay locally within those communities.

Q512 **Colin Clark:** What proof do you have to date that the policy works, that it actually stimulates councils to grow the economies of their areas?

Mel Stride: As you will know, we piloted rate retention, at both the 75% level and the 100% level. Next year, we are piloting a number of additional local authorities at the 75% level. The revenues involved have been above the expectation, I think, in terms of the amounts that have been coming through as a consequence of that. MHCLG is obviously in the driving seat of that and will continue to consult and look closely at it.

Q513 **Colin Clark:** Local authorities have to forecast their own needs and their receipts from their own retained business rates. Central Government will then redistribute to fill in the gaps. We have a similar system in Scotland. How well are local authorities managing this? This has caused issues. Do local authorities manage to estimate what they are doing, or do you cause shortfalls?

Mel Stride: One of the areas we are estimating would be occurring is around what proportion of appeals are going to succeed, for example, or not succeed. The chief accounting officers within local authorities would have to make a reasoned judgment as to what those numbers are. The feedback I have had from MHCLG is that that is working well at this stage.

Q514 **Colin Clark:** Is there a risk of gaming by the local authorities? Can they over or underestimate?

Mel Stride: There must be that risk, in the sense that I suppose you could take an overly conservative view as to what you were likely to receive after appeals had been concluded, and then subsequently discover there is an upside further down the line. Rather than being genuine growth in business rates, that would just be to do with your



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inaccurate earlier assessment. I am confident that, in MHCLG's view, that is not happening. Of course, it provides guidance on these matters. It is for those chief accounting officers in the local authorities to carry out that aspect of their duties with due diligence and care. The feeling we have at the Treasury and MHCLG is that they are doing just that.

Q515 Colin Clark: You have mentioned, Minister, that you are trialling 100% retention. Where we have seen this in Scotland in prosperous areas, we have a block grant that makes up the funding, and the block grant can be cut if you make more business rates. Is there a potential for a perverse disincentive, because the councils then have to pay and put in the infrastructure, if they are retaining 100%? I do not know how the tariffs and top-ups actually work. If you simply raise more business rates and you risk being cut from the central funding, you genuinely have to make more money before it is a real incentive.

Mel Stride: Yes. Is this the levy and stuff, Mike?

Mike Williams: It is a fair point. It is one of the reasons for looking at piloting. It is equally a reason why, when you do the pilots, you need to get a range of different local authority areas, because the impacts and the incentives on the more prosperous ones may well be different from the less prosperous ones. That is the core purpose of the trials.

Q516 Colin Clark: You are speaking about potentially extending the pilots. We find the situation that, if a shire is next to a city and the city has all the commercial property, it will make the business rates and the shire will not. Are you planning to extend the pilots further, and are you able to allow for that?

Mel Stride: The pilots are going to be extended to a variety of places, reflecting the diversity of different locales across the country. In 2019-20, at 75% level, we will have London authorities and the GLA, Berkshire, Buckinghamshire, East Sussex, Hertfordshire, then places like Leicester and Leicestershire, going further north, Norfolk, north-west Yorkshire, North of Tyne, Northamptonshire, Solent authorities, Somerset. We will be covering the country fairly liberally on that measure.

Q517 Colin Clark: You are obviously modelling the whole country. Just to finish, local authorities are allowed to form pools in relation to business rate retentions. What is the purpose of forming these pools?

Mel Stride: First, it addresses the issue of volatility. If you pool your business rates with another local authority, because you have more businesses paying the business rates, on average you get fewer spikes in appeals and so on. Secondly, by local authorities working together, because they are joining local authorities, they have a common interest in helping each other out both sides of the boundary. They would be two of the reasons.

Q518 Colin Clark: The pools must be re-established annually. Is there a risk that this is causing an unnecessary level of bureaucracy?



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Mel Stride: I do not believe so.

Mike Williams: People are not obliged to form these pools. I would have thought they would need to weigh up the bureaucracy. I think it will depend on things like how easy it is to connect their IT systems, which will depend on how compatible they are in the first place. I suspect there will be barriers to forming some pools, but probably not barriers to forming other pools, depending on that sort of constraint.

Colin Clark: That seems a reasonable answer.

Q519 **Mary Robinson:** On that last answer about encouraging local authorities to pool and to engage in pooling, there are wider benefits of them sharing services as well. Is this an avenue for driving efficiency forward in local authorities as an addition to just pooling the taxation?

Mike Williams: That is more a MHCLG policy than a Treasury one. I would have thought they were different things. You might pool to get efficiencies in the provision of service. Here, as the Minister said, it is more about pooling so you can better predict what you are going to get and perhaps eliminate some of the volatility. It no doubt depends on how big your local authority is in the first place. If you are the size of Birmingham, you probably have some smoothing against volatility anyway, whereas a much smaller local authority would not get that natural benefit of smoothing.

Q520 **Helen Hayes:** Could you briefly outline the benefits of business rates retention for the Treasury?

Mel Stride: I keep coming back to this fundamental reason why we are doing it, which is to grow business and to give local authorities every incentive to do just that. Through time, based on the assumption—I think it is a reasonable assumption—that that is effective and continues to be so, local economies will grow, the economy will grow, and therefore the tax take will increase. That is to the benefit of not just the local economies concerned but also the Exchequer, the taxpayer and public services more generally.

Q521 **Helen Hayes:** Would local authorities agree with that assessment?

Mel Stride: I am not an MHCLG Minister, so I am not as close to all the reactions from local authorities to that particular aspect.

Mike Williams: There is an issue with the volatility, with predicting the revenue stream. Equally, if you go back to the origins of business rates, where you had this completely uniform national system, and the money went into a pot and was then redistributed, there was very little, indeed probably no, incentive on the local authorities to add to the rate rolls. Retention provides that incentive.

Mel Stride: Quickly on that point, I would probably go further and say that pre-2013, before any of this kicked in, the incentive was completely



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misaligned. In other words, if you were a local authority that had not done a terribly good job at promoting business and was really struggling, that become your case to central Government to provide more money. Under this arrangement, your incentive is to do the right things, get the business right, and therefore receive the money.

Q522 Helen Hayes: Is it at all of concern to the Treasury that there might be an inverse relationship between the drivers of economic growth and the drivers of demand for the local authority services for which business rates are ultimately going to pay? For example, in an economic recession, you would expect to see less economic growth, but that might be exactly the same time at which the need for support from the council via social services is growing, because of the unemployment and so on that can result from a recession. You might have local authorities increasingly reliant on business rates but increasingly unable to match the growth in business rate income, or the rate of business rate income, with the drivers of the need for their services.

Mel Stride: You could certainly have a situation where the economy was in recession, there was an increased demand, perhaps, for various public services and ratepayers were being asked to shoulder an increasing burden. The whole purpose of the rate retention approach, as I have been describing, is to try to avoid being in the recession in the first place. It is to keep businesses moving, going up, vibrant, paying taxes and able to cope with doing that, and being part of ensuring the economy is healthy.

Q523 Helen Hayes: So they will be fine as long as we never have a recession.

Mel Stride: Frankly, what we do in the business rates space is probably not going to ever shelter us from future downturns, but it is the right thing to do.

Q524 Helen Hayes: The point is, Minister, that local authorities will be less sheltered from downturns than they are in a more grant-based system. That is the concern.

Mel Stride: Local authorities will thrive if local communities and local businesses thrive. What is important here in the way business rates retention works is to align that incentive for the local authority to make sure the conditions are there in the medium and long term, such that those businesses do well. Under those circumstances, we are not getting into recessions. We are looking at a vibrant local business community. It is not the only thing that matters, of course. There are huge macroeconomic issues around whether you are in a recession. In its own way, that, at the very local level, in the context of this particular tax, is a very positive way of structuring the tax and the funding in respect of local authorities.

Q525 Helen Hayes: Under 100% business rate retention, the plan was to phase out a number of existing grants. Is that still the plan under 75% retention?



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Mel Stride: There would be some devolution of grants as a consequence of income coming in the other way.

Mike Williams: You have to make sure things still balance. Obviously, if you are going for 75% retention, the amount of adjustment you have to make is smaller than if you went for 100%.

Q526 **Helen Hayes:** Which are the grants that you are planning to phase out?

Mel Stride: We have typically been looking at revenue support grant and rural services delivery grant. They would be two of them. In the case of some of the metropolises, there would be some health funding money as well.

Q527 **Helen Hayes:** Sorry, public health did you say?

Mel Stride: Yes. Sorry, I do not have it right in front of me. Anyway, those would be the two principal ones, I think.

Q528 **Helen Hayes:** There is widespread evidence of the increasing fragility of local authority finances in some local authorities. The Treasury is also making increasing use of section 31 grants. Do you believe the use of section 31 grants is likely to have to increase under 75% business rates retention? Are you making plans for that eventuality?

Mike Williams: That is a question you would have to ask MHCLG. It is worth saying that business rates are clearly not going to provide all the finances a local authority needs, but they are quite a stable source of revenue. Obviously, they are not perfectly predictable, but then no revenue source is. If we go back to Mr Betts's earlier question about whether you could move business rates away from rents on to a more revenue basis, the revenues the occupants of the premises make are more likely to be volatile than the rental payments are. At the very least, it is a reasonably stable source of income, and would be more stable through a downturn and easier for a local authority to predict than, say, a revenue-based system is likely to be.

Q529 **Helen Hayes:** The easiest way for a local authority to make a meaningful increase in the level of its business rates is by developing large format floorplates. Do you think there are going to be adverse consequences for some communities, in terms of the type of planning decision that might be encouraged by a very challenging financial environment for local authorities, which is increasingly dependent on their ability to increase business rates? Our inquiry is about high streets and the future of high streets. Do you think there is a risk we might be incentivising local authorities to favour out-of-town development for retail, over and above their town centre high street environments?

Mel Stride: The answer to that really is that these are local decisions. You are right that there will be a balance between, for example, the desire to raise additional revenue through business rates and the nature of the planning decisions that are taken, the kinds of buildings and



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premises that result, where they are and so on. That has to be a decision that is, rightly, taken at the local level by local councils, listening to their local communities and making those judgments. It will be for them to take those decisions.

Q530 Chair: Coming back to the issue of Government help to local authorities and reliefs to business, is it a general principle the Government have adopted that, where it brings in reliefs for business, which reduce the business rates paid to local authorities, central Government will compensate local authorities for that?

Mel Stride: Yes.

Q531 Chair: After 2020, you have just described the grants that are going to disappear as business rates become an increasingly important part of local government income. After 2020, if Government bring in more reliefs, how are they going to pay the money back to local authorities if there is no revenue support grant to pay through?

Mel Stride: You are getting into the technicalities now, MHCLG and how all the funding operates. From a Treasury perspective, that is not something I am able to particularly add anything to, unless you are, Mike.

Mike Williams: No, I am afraid not.

Q532 Chair: It might be helpful to have an answer to that one at some point.

Mel Stride: I am very happy to liaise with MHCLG.

Q533 Chair: Go and talk to your colleagues in MHCLG and see what they think of this.

Mel Stride: I am very happy to take that away.

Q534 Mr Clarke: Can I turn to the issue of sustainability of local government finances, Minister? That is obviously a topical one, in light of the news we have had this year about Northamptonshire and its state of affairs. At the end of November, Northamptonshire was told it would be allowed to use capital revenue to plug its £35 million deficit. What message does it send out that the Government are allowing the transferring of funds between different pots in this way? Is there moral hazard implicit in that?

Mel Stride: With Northamptonshire Council, we had an inquiry into what happened there. The overarching conclusion to that was that the financial management of the council had been rather lacking. That would perhaps be the gentlest way one could put it. If you are asking the question of why a council like that ended up in the position it was in, that is the main thing one would point to that led it to the situation in which it found itself, rather than the tools that were handed to it, which it may or may not have used appropriately within the guidance.

Q535 Mr Clarke: I am not so much arguing about the circumstances in which it came to grief. It is the principle of whether we are sending the right



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message by allowing the diversion of capital funds to plug this hole. I have two local authorities in my constituency, both of which, although I have political disagreement with them, have made sensible decisions to mitigate a reduced level of income. What message does it send to them that they have had to do the right thing within the guidelines and then Northamptonshire is being, effectively, bailed out by the use of capital funds?

Mel Stride: To the extent that they have not operated within the guidelines, a lot of very unfortunate decisions were taken within that particular council. I think the message it sends is the one that led to the conclusion of the inquiry. Those who were in charge and responsible were found to be very deficient in the way they took those particular decisions.

Q536 **Mr Clarke:** On 26 November, the Permanent Secretary for the Ministry of Housing, Communities and Local Government, Melanie Dawes, said that, in her view, there were no local authorities considered to be at comparable risk to Northamptonshire. However, on 2 December, 80 council leaders demanded an emergency cash injection to stop what they termed as a catastrophic collapse of their authorities. What is the Treasury view on who is right? Is it MHCLG, or is it the local councils themselves?

Mel Stride: I am not trying to duck this at all. We have a Committee that has MHCLG on it as well and understandably there are questions in that space. That would be a question you would probably need to put to them, rather than to Treasury.

Q537 **Mr Clarke:** Perhaps this is a fairer question. Were other councils to come to grief, would they be allowed to bend the capital and revenue rules in the way Northamptonshire has been allowed to?

Mel Stride: That is a hypothetical. In the event that that kind of situation occurred, we would have to make an assessment at that time.

Q538 **Mr Clarke:** In the 2018 budget, HMRC was made a preferential creditor in cases on insolvency to ensure that taxes collected and held on behalf of the taxpayer are received by HMRC. Should those rules be taken further now to ensure business rates are also covered, to provide similar protection for local authorities?

Mel Stride: That is quite an interesting question. I felt that part of the strong justification for the extension of HMRC's position in the pecking order of insolvencies was that this was in relation to moneys that were never the company's moneys. This was in relation to taxes, PAYE and national insurance that had been collected on behalf of the taxpayer and therefore it warranted moving it up. I think the point you are making is that, in a sense, in a similar situation the same argument could apply, that this is money that was never the company's money. It was money that was due to go over to the local authority. It is an interesting point that I would like to take away and think about.



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Q539 **Mr Clarke:** Would you?

Mel Stride: Yes.

Q540 **Mr Clarke:** Thank you very much. Would you write to the Committee in due course?

Mel Stride: I would be very happy to. I do not know if you had any specific thoughts on that, Mike.

Mike Williams: Unless you are going to go back to the old system, whereby there was Crown preference, and, in effect, all the debts owed to the Crown had a preferential claim over the other creditors, you have to draw the line somewhere. As for the announcement made in the Budget, it is where money is collected on behalf of someone else, the other person has a reasonable expectation the money will then be paid over as tax and that does not happen. It is those sorts of debts that are protected. You could, conceivably, go further, but, in going further, where would you then draw the line?

Q541 **Mr Clarke:** I appreciate it is not a question with a clear answer, but it would be helpful to get a reasoned answer to the pros and cons of so doing.

Mel Stride: To come back on that, I have now had time to cogitate your suggestion a little bit further. What we did at Budget and in the latest Finance Bill was indeed in respect of money that had been collected on behalf of HMRC. Within that, for example, any liability for corporation tax that was outstanding would not qualify in the same way. In other words, HMRC would not have the same level of claim over that particular liability on the company's part. I am now thinking that actually business rates is similar to corporation tax: it is not money that has been collected on behalf of the taxman; it is money that is due from the company. Nonetheless, I will certainly go away and have a look at that, and I will write to the Committee.

Q542 **Mr Clarke:** In terms of local authorities and their investment habits, we have heard during the course of this afternoon that part of the challenge over the next few years is local authorities becoming ever more responsible for their income streams. A number of them have started investing very heavily in commercial property. In August, it was reported that local authorities have spent £4.1 billion on commercial property over the last four years. Authorities like Spelthorne in particular have really started making very serious outlays on this. Does the Treasury consider that to be a sound investment?

Mel Stride: I cannot comment on a specific council or investment, but, in general terms, I think we recognise there are risks in this area. There are risks that local authorities get overextended and take on too much risk. That is why CIPFA has put out some guidance on this, I think in April of this year, to provide a clearer framework as to what the right and wrong things to do are. We are only half way through the year, as it were, at the moment, so it is a bit early to know what effect that is going to have.



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That is looking specifically at affordability over the longer period and the whole concept of proportionality in that sense. It is one of those areas we need to watch very closely. It is one of those areas where it is conceivable that further action might be required at some point.

Q543 **Mr Clarke:** Do you know what the quantum of central Government risk is from these investments?

Mel Stride: No.

Q544 **Mr Clarke:** That might be part of the process of further evaluation.

Mel Stride: Absolutely, yes, it will be. We will be looking at the instances where this is happening and determining whether these arrangements look, in the round, to be sensible or too risky.

Q545 **Mr Clarke:** As a final question from me, is this in fact a perverse outcome of the drive to make local authorities more self-sufficient in terms of their funding? They are, arguably, being forced to take decisions about their investment strategy that they might not otherwise have taken, had not the onus fallen upon them to raise money locally.

Mel Stride: I would answer that by saying what matters most here, and what is right, is that local authorities are responsible in all their dealings. I have no doubt that additional cost pressures mean that local authorities have to look ever harder for ways of raising money and saving money. That must never lead them into a position where they are doing something that in any way could be described as reckless.

Q546 **Chair:** Just to follow on, Minister, you are saying, and indeed the Secretary of State in the local government finance settlement referred to this as well, that MHCLG and the Treasury were giving some thought to whether further action might be necessary in this area. Could you identify what further action you might be considering? What would the nature of it be?

Mel Stride: Tempting though it is to speculate, I would have to say that we just need to have a closer look at it, and take a measured and informed decision as to what we might then do. It is a "might" rather than a "will". It is a case of looking carefully at what is happening out there, seeing how the CIPFA guidance is working out, seeing if it is leading, in general, to the right kinds of behaviours. If it is not, we would have to look carefully at it. At this point, I do not think it would be right for me to start speculating on what we might do.

Q547 **Chair:** Before Government came to any decision, would it be your view that there would be detailed discussions with the LGA and CIPFA about doing anything before you decide to do it?

Mel Stride: Absolutely. It is inevitable and right that there will be a whole series of discussions with all sorts of bodies to make sure we take a full and informed decision.



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Q548 Nicky Morgan: I have a couple of things to follow up on earlier answers. We were talking earlier on about the pooling of risk between different local authorities in relation to business rates retention. It would be really helpful if you could write to perhaps the two Committees jointly. For a number of the answers this afternoon, probably fairly, Treasury Ministers might not be across the details, on the basis that this is an MHCLG responsibility. Ultimately, some of these things are whole-of-Government responsibilities. For example, there is this issue about the pooling of risk, which tends potentially—I think this is what you were suggesting—to help smooth volatility. I suspect it also has a knock on effect, but push back if I am not right on this, on how much money central Government may need to make up on the basis of different areas getting different amounts from business rates. It goes back to the Chair's original question: as business rates retention moves to 100%, what happens, given the demand on local authority funding? As we know, there are more and more demands on local authority services.

I get the impression from your answers that this is something where perhaps decisions have been made in MHCLG. I know the MHCLG Committee has the Minister coming before it. Treasury must be very interested in this area, even if the decisions are being made by another Department.

Mel Stride: I would be very happy to respond to that request and send some information, as you suggested.

Q549 Nicky Morgan: It might end up being a joint letter between you and another Minister.

Mel Stride: Yes, indeed. I am very happy to come back on that.

Q550 Nicky Morgan: I think earlier on you also said that the number of businesses was known at a local authority level but not at a national Government level. I suppose the question really is why not at national Government level. Again, it may be it is not known by the Treasury, but known by MHCLG. Apart from enjoying the income from business rates, how much is Treasury across the detail of current business rates policy and as it is changing in relation to the retention scheme?

Mel Stride: Just to qualify that, I cannot remember precisely what I said earlier, but we do know the number of business rate payers out there. It is about £1.9 million to £2 million in total. I think it was in respect of a question about small business rate relief, how many were getting it and so forth. That is where it becomes more difficult, because that kind of more granular information as to what certain businesses are getting by way of relief tends to be information held at the local level.

Q551 Nicky Morgan: You are making decisions before Budget announcements. One of the arguments has been, for example, that a number of the businesses the Chancellor cited as benefiting from the changes in the October Budget were already going to benefit because they were subject to small business rates relief. One assumes—and I do not know; perhaps



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Mr Williams can help us here—when officials are providing Ministers with advice, that is the level of detail they will go into, to make sure the Chancellor is getting those numbers right.

Mike Williams: We have some information, but inevitably we would have less information than, say, in relation to a tax that was administered nationally by HMRC. If you look at the business rates structure, the VOA, as a national body, provides the rating values to the English local authorities, but it is the English local authorities that are administering the system and have some of the data. There is not a mechanism, if you like, where you grab and aggregate that data, so more estimation is required than would be required if it was done on a national basis.

Q552 **Nicky Morgan:** Business rates relief has been a key part of successive Chancellors' Budgets since 2010 and potentially before. Do you not think the Treasury should have that level of information in order to arrive at the statements that successive Chancellors have made to say, "X number of businesses are going to be helped by the announcement I am making today"?

Mike Williams: It would be a further cost on the local authorities, because they would inevitably have to provide the information on a standardised basis. This is then the question: given we are able to estimate, despite not being able to do so as well as with, say, HMRC-administered taxes, would it be worth that extra effort to do that?

Mel Stride: It might be helpful if we wrote to you on this and set out exactly what we are able to establish—

Nicky Morgan: The process that is gone through and information you have.

Mel Stride: Exactly, and the bit we cannot establish.

Nicky Morgan: What is estimated and what is known would be very helpful.

Mel Stride: Certainly.

Q553 **Chair:** Finally, just to mention, Minister, we had Mr Ashley in front of our Committee a few weeks ago and he made one or two interesting suggestions. One I want to put to you directly was that we should have a 20% sales tax on any retail business that has more than 20% of its sales online. How would you respond to that suggestion?

Mel Stride: The problems with going for a general online sales tax are that, first, the costs would probably be passed on in a very direct fashion to the consumer, so it would have an implication for inflation. As an indirect sales tax, it would be quite regressive. It would impact most heavily on those who have the least. Certainly, at the 20% level, which is quite a large amount, the equivalent of doubling VAT, effectively, it would perhaps stunt innovation. It would be quite a significant brake on a lot of



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activity and quite disruptive actually. That is not to say there are not some arguments around an online sales tax and these are things we keep under review.

Q554 **Chair:** His principle, ignoring the precise percentage, was that, if you put it on those retailers with a certain percentage of their sales online, it would encourage them to go and improve the offer they made in the high street to keep that percentage down.

Mike Williams: It would also potentially distort competition, though. Ms Morgan raised the state aid rules earlier. Whatever follows on from the state aid rules when we have left the EU, it would be difficult, under the current state aid rules, to justify levying a tax on sales made by one warehouse because there were not high street sales alongside it, while not levying that charge on the sales of an identical warehouse next door that was connected to a retailer, but where goods were still being sold direct from that warehouse to the customer. You have basically identical circumstances, which the business rates system recognises as pretty identical by assuming they would pay the same rent and have the same rateable value. In this sort of circumstance, you would be saying one had to pay massively more than the other for doing essentially the same thing.

Q555 **Chair:** That breaches state aid rules, does it?

Mike Williams: I find it hard to see how that would not breach state aid rules.

Q556 **Chair:** Perhaps we could have a note on that, just to see if it does.

Mike Williams: Yes.

Chair: That would be helpful. Minister and Mr Williams, thank you very much for coming to give evidence to the Committee today. I will just finish by wishing all members of the Committee, all staff, and you of course, Minister and Mr Williams, a very happy Christmas. As for the new year, all we can do is wait and see. Thank you very much for coming.