

Treasury Committee

Oral evidence: Impact of Business Rates on Business, HC 1944

Tuesday 7 May 2019

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Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Clive Betts; Mr Steve Baker; Mr Simon Clarke; Charlie Elphicke; Kevin Hollinrake; Catherine McKinnell; Wes Streeting.

Questions 1 – 108

Witnesses

I: John Boulton, Technical Strategy Department Manager, Institute of Chartered Accountants in England and Wales; Tom Emlyn Jones, President, Rating Surveyors' Association.

II: Neil Leitch, Chief Executive, Early Years Alliance; Paul Crossman, Multiple pub operator; Kate Nicholls, Chief Executive, UK Hospitality; Mandy McNeil, Vice-Chair, Save UK Pubs.

Written evidence from witnesses:

– [Institute of Chartered Accountants in England and Wales](#), [Rating Surveyors' Association](#), [Early Years Alliance](#), [Paul Crossman](#), [UK Hospitality](#), [Save UK Pubs](#)

Examination of Witnesses

Witnesses: John Boulton and Tom Emlyn Jones.

Q1 Chair: Good afternoon, everybody, and thank you to our first panel for being here. I am going to ask you very briefly just to introduce yourselves and then we are going to get straight into our first session on business rates. Mr Boulton, perhaps you could start with an introduction.

John Boulton: I am John Boulton from ICAEW's technical strategy department. ICAEW is a professional body representing over 150,000 chartered accountants in the UK and internationally. Our members work both in business and in practice as high street accountants in every community across the UK. Our members in business are people who pay business rates and are members in practice who advise businesses on rates.

Tom Emlyn Jones: Hello. I am Tom Emlyn Jones. I am a chartered surveyor. I am here on behalf of the Rating Surveyors' Association. Our members eat, drink and breathe rating.

Chair: Oh dear.

Tom Emlyn Jones: Forgive me. I also practise as a chartered surveyor advising businesses about rates, and my business pays rates.

Q2 Chair: Thank you very much indeed to both of you for being here. We will try to get into detail, but if we get into acronyms and everything else, I may have to ask you just to explain things, because obviously you are being watched by people in the room as well as people online.

Mr Boulton, could I start with you and the evidence that the ICAEW have provided? One of the things you say in that evidence is that business rates are not distributed equally among businesses, with the current system being unfair and unpredictable. I know that all of our panels could talk for a long time on business rates, but could you say fairly briefly why this current system is considered by the ICAEW to be so unfair and distributed so unequally?

John Boulton: ICAEW has set out what we call the 10 tenets for a fair and stable system of taxes. Those 10 tenets include things like tax being certain, being simple and being easy to collect and calculate for taxpayers. Those are three of the 10 tenets. We think that business rates is failing on all three of those at the moment. The system is much less simple than it could be; it is uncertain for businesses having to pay it; and it is very difficult for businesses to calculate how much they are due to pay. We think that that is unnecessary. If there is to be a property tax, then that is one thing; it is quite different to having a tax system that entails a lot of administrative complexity for taxpayers to comply with. It is something that is quite different from other forms of tax.

Q3 Chair: We have two colleagues here today from the Housing, Communities and Local Government Select Committee who have already



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conducted an inquiry into high streets. We often tend to hear about retailers, in particular, and their comments and concerns about business rates, for very understandable reasons. I just wondered whether you could expand. When you say that it is not distributed equally amongst businesses, do you feel that there are particular types of businesses or sizes of businesses or other things that make the system unfair? I hear what you say about the tenets but what is it about particularly specific types of sectors or specific businesses that makes it unfair?

John Boulton: Business rates is a substantial tax, but it is a tax that attracts two particular sectors much more than others. It is not distributed evenly across the economy. If you have a business that is heavily property-dependent, a significant portion of your cost base will be spent on rent and on rates. If we have a property tax-based system, those businesses that intensively use property will have to pay a substantial amount of property tax under that system.

The problem is that, because of the features of the system that make it very difficult for businesses to calculate and assess how much they need to pay and because of the difficulties in then challenging it, you exacerbate a system that already penalises property-intensive businesses with a lot of difficulties that are not necessarily inherent in the idea of a property-based tax.

Q4 **Chair:** Mr Emlyn Jones, your written evidence to the Committee identifies several factors that have “eroded confidence” in the current business rates system. Which factors do you think have most eroded confidence in the business rates system?

Tom Emlyn Jones: The reason we are here today is because there has been a perfect storm of unfortunateness that has happened at once. As it has turned out, delaying the revaluation in 2015 meant that some parts of the country that might have got relief from a rating revaluation were delayed and other parts of the country that might have had the reins put on by a revaluation were allowed to charge ahead. That is history but it is a factor.

The second factor that I would point to is that, at that revaluation, one of the things mentioned that hurts the high street is downwards transition. It means that some of the larger shops on the high street in many locations have not seen any benefit or a significant benefit from the revaluation. That again is an unfortunate factor.

Those two things have happened coincidentally at the same time that the challenge appeal came in with the Valuation Office Agency. That, I am afraid, has not worked out well at all because initially the IT was untested and did not really work and, even today, the system has disappointed the business community. That is as kind as I can be.

The final point I would say, which is a more general point about why confidence is eroding, is that, if you get a bill, the chances are that it is



indecipherable because of all the reliefs that potentially exist. Those are four big points. I am happy to go into more detail on each of them but those are the main ones.

Q5 Chair: Rushanara is going to ask about reliefs, but you mentioned the tenets of a good system. Would you perhaps both agree that, if you have a system where you are having to give more and more reliefs to enable the system to be affordable for the people who are paying the bills, that is a system that is capable of remedy or does the whole thing just require a complete overhaul to make it work?

John Boulton: Reliefs will always be welcomed by those businesses that benefit from them, and there are lots of businesses for whom rates are very material and need those reliefs in order to make a particular business model work in some cases, and rates can make a difference between a productive business decision being made or not made. The problem is, though, that reliefs are a symptom of a system that itself has flaws at its heart. Now, a business that has assessed how much rent it can afford to pay to take a certain investment forwards and can then also assess how much rates they would pay as a result of that, because they can see the multiplier—it is a publicly available piece of information—and can then make a decision on that basis.

However, they may be unable to make that assessment because the actual amount of rates that they end up paying could be quite different. We have spoken to a number of our members who work in sectors where rates are very material and they have given us examples of cases where they have not been able to make a business decision because rates is always going to be a very big part of the bill—the cost of making an investment for certain types of business—but it is the uncertainty that goes along with that and then the difficulty in challenging if the rates are not in accordance with what they would expect. All of that is potentially unnecessary because, if you know how much your rent is and you know what the multiplier is, then you would expect that the rates would be quite predictable, but they are not.

Q6 Chair: Mr Emlyn Jones, what do you think? Do you think it is a system that is capable of remedy or does it require a complete overhaul?

Tom Emlyn Jones: Intrinsically, the system should and could work smoothly and, indeed, has for many years worked smoothly. I point to the perfect storm that has exacerbated some of the problems at the moment. I have looked at some of the representations to you and there is a common theme that, just at the moment, the level of rates has risen to such a height that that is part of the problem in itself, where normally that might wash away into property values through rents, as Mr Boulton suggested. At the moment, it is just at such a high level such that, where there is a delay in the system adjusting to the rent rate autocorrect mechanism, it has caused problems.

Q7 Chair: Is that autocorrect the revaluation? You mentioned the perfect



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storm. Is the problem about the revaluation being delayed? How important is the revaluation cycle to making this system work better?

Tom Emlyn Jones: The delay was a problem partly because it was slightly unexpected and partly because over that revaluation period there were some significant changes. We favour the move to three-year revaluations because logically, in theory, the more often you revalue, the smoother the trend line will be. However, it is not just rates that change; rents change as well. With that, you have rent review dates, upward-only rent reviews, lease terms and so on. As it happens in the modern world, leases are getting shorter so rent can react to rates. Now, you do not want the tail wagging the dog, as it were, with rent reacting to the rates; the rates should react to the rent. That is the system. It moves as a dance or a tango.

Chair: You are right; we have had quite a lot of evidence on that as well. Thank you.

Q8

Charlie Elphicke: Good afternoon. The way business rates are calculated for pubs differs from the standard approach as it is based on a so-called fair maintainable trade. Can you explain the reasons for this and what the implications are?

Tom Emlyn Jones: The reason for this is probably historic, whereby pubs were mostly owned by brewers and so, if there was a rent between the brewer and the publican, it was a false rent because the brewer owned the pub and provided all the beer and employed the publican, very often. There were no rents. The usual way of valuing property is by way of rents but there were no rents so then the practice became to look at fair maintainable trade.

If you look at the methods of valuation that chartered surveyors adopt, the rental value is the main one. Profit and loss is the second and contractor's test is the third. Fair maintainable trade is not, strictly speaking, a profit and loss valuation. What it is is there are some rents identified for pubs, the trade for those pubs is looked at, you get a basket of pubs and trade, and then you make adjustments, depending on if it is in a big city location or a rural location and that sort of thing, and then you extrapolate that across the country so that a pub doing this trade in this sort of location will have a rateable value of something like this. That is how it works.

The only other thing I would say about that is you can use all the methods for rating valuation and, if you apply the methods properly, you should come to the right answer. I have dealt recently with a bar in Shoreditch and the valuation was valued on trade, and I significantly reduced the rating assessment by pointing out that the rents for properties like that were much lower.

That might lead me on to another point, if I have a moment to say it. The Valuation Office Agency is somewhat under-resourced at the moment and so to do that took quite a lot of persuading and pushing and shoving whereas, if there had been someone who got my point quicker, shall we



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say, they would have agreed it earlier and quicker and it would have been easier. I would encourage you, if you have the opportunity, to empower the Valuation Office Agency with more expertise and resources, which would help the rating system.

- Q9 **Charlie Elphicke:** Looking at pubs, it always used to be that the brewer had a whole load of tied pubs but now we have the rise of free houses and we have the rise of pubcos. The tied brewer pub is a much rarer beast. Do you think the law should have recognised that and should have changed long ago, or do you think it is still relevant?

Tom Emlyn Jones: I do not think it is a matter for law; it is a matter for valuation. Again, I would encourage ratepayers' agents for pubs.

- Q10 **Charlie Elphicke:** What I mean is about the law and practice in relation to valuation methodology. Pubs were treated differently but, given that the world has moved on from tied pubs to brewers to tied pubs to pubcos, often owned by private equity outfits that lean on the licensee, and free houses, do you think it is still relevant? Is it still the right basis of valuation or has the world changed?

Tom Emlyn Jones: I go back to my previous point. The method of valuation, if applied properly, should get to the right answer. You can look at both rents and fair maintainable trade. Whether the Valuation Office Agency has the resources to do that, I am not sure.

- Q11 **Charlie Elphicke:** I have had complaints in the past that garages that have shops with them—SPAR or a BP garage with a shop or M&S—seem to have a different business rate basis from supermarkets out of town. They complain that this is unfair. Can you explain whether that is the case and why it is the case?

Tom Emlyn Jones: I could conject, but for that particular question, if I could provide a written answer from colleagues from the Rating Surveyors' Association, who deal with that sort of property type, I would be pleased to do that.

Chair: Please do, yes. Thank you.

Tom Emlyn Jones: I have colleagues here who might make a note of that to make sure we do that.

Chair: We will make a note as well, so we will work together.

- Q12 **Charlie Elphicke:** The other issue is high street valuation basis versus out-of-town shopping centre valuation basis. Is there a disparity and, if so, why?

Tom Emlyn Jones: I would have thought that the valuation of high streets and out-of-town shopping situations follow the rents very closely. The analysis of the rents and the application of the valuation skills are absolutely within the ambit of the Valuation Office Agency and ratepayers' agents.



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Q13 Charlie Elphicke: Are either of you aware of a disparity of high streets paying more compared to out-of-town shopping centres? Yes or no, quickly.

Tom Emlyn Jones: It will follow the rents.

John Boulton: It just illustrates the complexity in the system and the fact that you have evidence that what you expect you might be paying is not necessarily what you end up paying. Some of that is unnecessary.

Q14 Charlie Elphicke: Many building have rateable values that cannot be calculated in a normal way such as airports and major factories that have their valuations valued according to the so-called "contractor's basis" method. What are the main differences between that method and a standard rateable value approach?

Tom Emlyn Jones: A valuation by a contractor's method is different, in as much as it looks at the capital cost of the building and the land and then decapitalises that with a statutory rate. The Government set what that rate is, which is the only place in the whole of rating where the Government actually impact on valuations directly.

Q15 Charlie Elphicke: Do businesses that pay that rate benefit from lower or higher business rates relative to normal buildings?

Tom Emlyn Jones: You will sometimes see in a revaluation that, if the decapitalisation rate set by the Government perhaps does not fit with the market, then valuers may or may not be able to make allowances to make that work out more effectively. Sometimes, at a revaluation, the statutory decapitalisation rate has a significant impact on the outcomes.

Q16 Charlie Elphicke: As we know, a lot of our major airports are effectively shopping centres with runways attached. My question is: are the business rates in relation to those airport shopping centres more or less generous, or more or less expensive from a business rates point of view, than the high street or the out-of-town shopping centre?

Tom Emlyn Jones: It is a good question. Airports are a very specialist valuation, you will appreciate, and I would rather get an answer on that from a specialist.

Charlie Elphicke: It is an important question.

Chair: Train stations as well.

Q17 Charlie Elphicke: Indeed, and train stations. As we all know, BAA and these outfits at airports obviously pocket all the duty free and take shoppers for a ride. What I want to know is: are they also getting a massive business rates benefit on top of that?

Tom Emlyn Jones: I should think they are paying a very big number.

Q18 Charlie Elphicke: That may be so, but are they paying the right number and a fair number compared to the trade in other parts of the world,



including our high streets? That is the question.

Tom Emlyn Jones: The answer should be “yes” because the Valuation Office Agency should ensure it is.

- Q19 **Charlie Elphicke:** I look forward to a detailed written response on this so that we can assess. It is a very important question in relation to the relative balance of competition and market position of different outfits and different enterprises that have greater ability to make their valuation case because they have more money than the poor little humble high street shop. It is a very important area for us to know whether the situation is fair and to make sure that some are not advantaged over others.

Tom Emlyn Jones: Yes, on behalf of the Valuation Office Agency and members of the Rating Surveyors’ Association, I am sure that they would say absolutely that they are doing a fair and proper valuation.

- Q20 **Charlie Elphicke:** I am sure they would but the question is: are there disparities? That is what we need to know.

Tom Emlyn Jones: With the nature of ratings valuations, absolutely not. It is one cake.

- Q21 **Chair:** I have a follow-on question, perhaps again for written evidence or immediately. There are clearly different bases of valuation. Charlie has highlighted pubs. We are asking about airports and major factories, and train stations as well. I was at Birmingham New Street Station yesterday, which has been beautifully re-developed, but it follows Charlie’s maxim in that it is a large shopping centre with platforms attached to it. As I understand it, Network Rail has a huge retail element to its business now. It would be helpful, if you are able, on behalf of the Rating Surveyors’ Association to give us any further details of different sectors having different types of valuation. There are nods from behind, so that has been taken on board.

Tom Emlyn Jones: Certainly at railway stations, all shops will have their own rating assessments.

Chair: Exactly. How all that works will be very helpful.

Tom Emlyn Jones: That would be on rents.

John Boulton: This illustrates that there are changing business models and changing models for rent as well. All of this adds to that complexity and adds to that lack of responsiveness that a business decision is going to result in a certain cost base. Clearly you cannot just take rent if rent is a number that does not necessarily reflect the economics of operating in that place, because you have another arrangement, perhaps as you might have with pubs. With the data capabilities we have available now and the data that is coming out of the Making Tax Digital system and will come out in the future, it gives a lot more granularity and the ability to compare different data sets for the economic relationships inherent in



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operating in a certain way, including the rent that is paid, such that there is a potential to make a system that is much closer to the reality of a particular business model and that is fairer.

Chair: Thank you. That is very helpful.

- Q22 **Rushanara Ali:** Good afternoon. My focus is on reliefs. There are several types of business rates reliefs. Some you have to apply for; others are automatic. Within your respective industries, what is the level of awareness around these reliefs and eligibility for them? Perhaps, Mr Boulton, you could start.

John Boulton: There are a variety of reliefs available, and our members in business who benefit from those reliefs are very grateful where the relief is available that benefits them. Clearly, some businesses are much more dependent on property as part of their business model than others, and many businesses, of course, do not benefit from reliefs at all. We have spoken to members who operate things like a leisure experience where they are going into units that might be difficult to let for retail purposes because of the shape of the unit or perhaps the location, and they perhaps generate their footfall from the internet. Now, they are able to develop those sites and to spend a lot of money in doing that in order to create business activity in a space that otherwise would not be able to be used. However, those businesses do not actually benefit from any reliefs at all. Reliefs are very targeted and there are actually lots of businesses that do not benefit from them.

- Q23 **Rushanara Ali:** How would you answer the question? I take your point but what is the overall awareness level? Have there been any surveys? Is there a broader tangible understanding of the levels of awareness? What percentage, for instance, would you say have a good enough awareness of this?

John Boulton: We have not surveyed our members on the knowledge of reliefs but clearly many of them are well known, such as the small business relief.

Tom Emlyn Jones: I would say it is mixed but, in the main, people are aware of reliefs. Some of them are so complicated that they do not fully understand them; they get a rates bill and it looks like absolute gobbledygook. Generally, however, people are aware of reliefs and ask, "What can I get?"

- Q24 **Rushanara Ali:** What about claims? How would you describe the extent to which it is easy to claim, or is it complicated? You mentioned that it is hard to understand some of this. Is it easy to claim? Can it be simplified?

John Boulton: The appeal system is a real problem. The changes that have been made to the system, we understand, have not been very helpful. One of the things that we would like to look towards is to compare this to the system in the Netherlands. There are a number of differences there but one of the key points is transparency so that



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ratepayers have a much larger influence over being able to communicate information to authorities and being able to see what that information is and being able to challenge it because they are central to the communication of that information. Elements of that could be very helpful.

Q25 **Rushanara Ali:** Mr Jones, do you have anything else on that?

Tom Emlyn Jones: Certainly as far as the appeals system is concerned, challenge and appeal has been very disappointing. As far as claiming other reliefs are concerned, I am surprised, as an agent, how often clients ask me to do that for them rather than do it themselves. It stems from bills sometimes being rather over-complicated and they throw up their hands and say, "I will get someone to do it for me".

Q26 **Rushanara Ali:** It is a combination of people feeling not so confident about doing it themselves and needing expert advice as well as the complexity of the process and of the forms and so on.

Tom Emlyn Jones: I am not sure the forms are so complicated, actually. It also possibly stems from the fact that the numbers are quite big because the poundage is quite high and so people want to get it right.

John Boulton: That is compounded by the delays in going through the system.

Q27 **Rushanara Ali:** Okay, thank you. In written evidence submitted to this inquiry, there have been concerns about the impact of downward transitional relief. Would you agree with the assertion that, for many businesses, transitional relief means they continue to pay higher rates for longer than the value of their property should require?

Tom Emlyn Jones: That is transitional surcharge. Transitional relief stops your rates going up. Transitional surcharge stops your rates going down. Certainly, we think it is unfair, when you have a revaluation, that a business whose rates should go down do not go down, and indeed do not go down because he is paying to stop somebody's rates going up. That is disappointing.

Q28 **Rushanara Ali:** Mr Boulton, do you have anything to add on that?

John Boulton: This is a system that is very closely related to the delay between valuations. If you have more frequent revaluations, clearly it will not be so much of an issue. It just illustrates the issues with the system where you have a location that may be marginal in terms of profitability because the area is in economic difficulties and, where it is really difficult for that business to survive, they then have a delay in receiving the reduction in their rates, not only because of the difference in the time they have to wait for the revaluation but then also because of the effect of this transitional relief. It is doubly unhelpful, as many aspects of the system are.

Q29 **Rushanara Ali:** You have already mentioned delay, reducing the



complexity, more transparency, better communication, learning from the Netherlands system and reducing uncertainty. Are there any other recommendations to the system that you would want this Committee to make to make it more fair? Also, how well are the reliefs supporting Government policy, in your view? This is your chance to tell us what we could be doing.

Tom Emlyn Jones: On the question of fairness, it seems to me that you have two questions to answer. The first one is: is a property tax fair against the other basket of taxes you have?

Q30 **Rushanara Ali:** What do you think?

Tom Emlyn Jones: That is outside my paygrade. I am a rating surveyor. What I would observe is that corporation tax has come down while business rates have gone up. If you are looking at fiscal neutrality, you are going to have to make a decision as to whether that is something you can sustain with rates at the level they are.

Having said that, my interest is in how you would make the thing work fairly as a system. Some money spent on the Valuation Office Agency to improve the resources that they have would help because they are important for these points of getting the valuation right in the first place and correcting changes in the list, which absolutely leads to people's complaints about unfairness. That is an important thing to do.

I would encourage you to row back on reliefs. They are sticking plasters because the rates are high and one person's relief is fair for them but it means that it is unfair for everybody else. I happened to make a note of requests for further reliefs in the representations you have had, including pharmacy relief, grassroots music venue relief, ecological credits, bookshop relief, open workspace relief and so on. I could go on. My point is that, if you open the door to reliefs, everybody will be saying, "Can I have a bit of that?"

Rushanara Ali: It is better to have a better overhaul.

Tom Emlyn Jones: You need to phase these reliefs out and have a better-run system that runs smoothly—it has worked for hundreds of years—but probably at a lower level of tax, I am afraid. If you were to tax agricultural land, you would get a little bit of money back.

John Boulton: The recommendation that we set out in our written evidence is quite simple but it would be quite a big change from the system we have today. At the heart of it, you get a closer link between rent and rates. This is much closer to the system they have in the Netherlands where there is much more transparency whereby taxpayers can see the amount that they are paying, they can see how it is linked to the rent or whatever basis it is, and they have the opportunity to change and fine-tune that.



What we think could really improve things is greater certainty and transparency around ratepayers having that information and then greater transparency around the ability to challenge it. With the technology that is available today, there are opportunities to do things differently to how they have been done in the past, and this is a real opportunity, especially coupled with Making Tax Digital, which was only introduced last month, to do things that would enable businesses to make productive decisions on a much more sound basis. Reliefs are often just symptoms of something that is not working for business and they are often symptoms of things where businesses are not able to make productive decisions because of the effect of rates. It is a pity if Government policy is just about addressing those things. Clearly, tax can be a tool to achieve policy goals and it would be nice to see business rates being able to be used effectively for that, rather than having to create the kind of sticking plasters that Tom has referred to.

- Q31 Kevin Hollinrake:** Can I just bring attention to the register of Members' interests? I am still a shareholder and a chair of a business that has around 200 high street premises around the UK. I am not looking for an exemption or relief for estate agents but I do want to ask about some evidence you gave, Mr Emlyn Jones, in your written evidence. Essentially, are the reliefs shifting the burden of business rates on to fewer people? You said that because the rate poundage is too high—the multiplier being 50p rather than the original concept of it being 33p—the reliefs are likely to increase the pressure on the remaining taxpayers. Could you set out exactly how that works?

Tom Emlyn Jones: My understanding is that rates operate under this term of “fiscal neutrality”, which means that with revaluation you are left with the same amount of rates plus a bit of inflation, which then has a ratcheting effect that explains why we are where we are, and with transition the winners pay for the losers. I am afraid I am not 100% sure of this, which is why I was a bit equivocal in my evidence, but with the reliefs that is also fiscally neutral. Your point is exactly right that, if you give a relief to somebody, somebody else is paying.

- Q32 Kevin Hollinrake:** That happens through the multiplier, effectively.

Tom Emlyn Jones: I suppose it does. That is exactly right.

- Q33 Mr Baker:** You have both thrown out some very tasty bait and I am going to take it. Mr Boulton, earlier you prefixed an answer by saying, “If there is to be a property tax”. Would you like to elaborate on that? Are you suggesting that there ought not to be a property tax?

John Boulton: Of course, if you are in a sector that is very property-intensive, rates will always be a very material amount for you to have to pay. Some of the fundamental issues can be solved by just making the system more certain and more transparent. It is for Government to decide how the tax base is distributed among the economy and who pays more or less tax. It is a political decision. Clearly, at the moment, property tax does raise a significant amount of Government revenue and



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it would be quite difficult to replace it because of the size of that, and, actually, some of the issues with the system are not necessarily related to the size of the tax take but with the administration and the interaction with the system that make paying it much more painful and unfair than it otherwise would be.

Q34 **Mr Baker:** I wondered if you were going to suggest a turnover tax instead.

John Boulton: Turnover is certainly a piece of information that Government will be able to gather more easily in the future with Making Tax Digital where these kinds of information will be gathered but anything that distributes a tax in a different way is something that the Government will need to think about very carefully.

Q35 **Mr Baker:** I know politicians always dodge hypotheticals but I am going to ask you a hypothetical. Suppose that Government found a way to have a fiscally neutral turnover tax. From the point of view of administration and accounting, do you think that turnover tax would be easier or more difficult for businesses to cope with?

John Boulton: We would always assess that kind of proposal against our 10 tenets around the ideas of certainty, simplicity and the fact that it is easy to collect and calculate. It sounds like something along those lines would pass a better test in that it is easy for businesses to calculate and they have certainty around how much they will pay connected with a certain level of activity. However, that might bring changes in terms of distribution of the tax, which then would need very careful consideration.

Q36 **Mr Baker:** I am looking at the range of reaction in the room, to which I am probably forbidden from referring, and it is a great pity that there is not evidence to be taken from everybody present. Could I just turn then to Mr Emlyn Jones? You also said, "Is a property tax fair?" before declining to answer. I should say that I think, as a voter, that no matter is above your paygrade. You also went on, if I may say so, rather impishly to suggest a tax on agricultural land. At the other end of the spectrum, are you suggesting that there should be a generalised land value tax?

Tom Emlyn Jones: I am not suggesting a land value tax, although I have seen some representations that ask for that. I have mentioned before the cake of the rateable value of the country. You get your cake, you get your poundage and you get your tax. If you were to make the cake a bit bigger, that might help you reduce the poundage. However, these are political questions rather than ones for rating surveyors.

Q37 **Mr Baker:** I am sure that we in the Conservative Party would like to have a bigger cake. Let us come on to valuation cycles. How important is the frequency of revaluations in ensuring a fair business rates system? Perhaps, Mr Boulton, you would like to go first.

John Boulton: I would say it is very important. It is not the only factor but it is a key factor that leads to that difference between what



businesses think they need to pay and the amount of rates that they end up having to pay. There are a variety of complications in the system that mean that that assessment is difficult to make but they are compounded by the lack of more frequent revaluations. That is a particular issue if you are in an area where perhaps the economic conditions are more challenging and you are then waiting for the rates to adjust and reflect local conditions. Remember that the multiplier now is in excess of 50p for larger businesses, and so it is a very material amount.

Q38 Mr Baker: I am advised that both Hong Kong and the Netherlands have an annual revaluation system. Have you any information about why they are able to do it annually but we are not?

John Boulton: In the Netherlands, there is much greater use made of data. There are computerised assessment models that are used. There is also much greater use made of transparency. The taxpayer is an integral part of the system, both in seeing how much they are assessed at and then being able to challenge that and correct it if it is not the case. It is much easier for them to challenge and correct than our system. You have a variety of things that act together—you have the more frequent valuations but you also have the transparency and the ability for it to be corrected and brought back in line more easily.

Q39 Mr Baker: Would annual revaluations have a beneficial effect on transitional reliefs?

John Boulton: Transitional relief is a function of the fact that you have these bottled-up changes in valuation, so clearly there would be less need for transitional reliefs. However, the key thing is that, if you are in a situation where you are in a difficult economic position and in an area where you would be paying less rent, then there is a delay at the moment to you receiving that. Actually having a system that would transmit that in a much clearer way would be helpful to those businesses.

Q40 Mr Baker: Mr Emlyn Jones, would you like to reflect or add to that?

Tom Emlyn Jones: There are a couple of things. The poundages in Hong Kong and Holland are significantly lower—I think a single-digit percent. The attention people bring to their rates bill will be significantly less. That is a factor. We favour more regular revaluations because we think that will help for that accuracy. The five-year system was working reasonably well because rent reviews are five-yearly and so people had that sort of level of change. However, the market may have sped up now and we have pressed for and are pleased to see three-year revaluations. There is at the moment this two-year antecedent valuation date, so the valuation date is not the date of the revaluation but it is actually two years. The list is already two years out of date when it starts. We would encourage the next move to be to bring that forward to make the antecedent date. I have spoken, since I prepared my paper, to colleagues who used to work in the Valuation Office Agency who have said that there is quite a lot to do. While we are for it, there are practical considerations.



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Q41 **Mr Baker:** We have discussed data in this evidence session. Do you think a desktop-based approach could be possible?

Tom Emlyn Jones: I have a story about desktop valuations.

Mr Baker: Only if it is short.

Tom Emlyn Jones: It is not very short but I did take some American bankers around London about 15 years ago to show them how their desktop machine might work on lending in London. We got as far as Clapham where they saw a 1950s block and a 1930s block and a 19th century thing and something older, and they said, "This is never going to work". Valuers generally consider automated valuations models, as I think they are called, as helpful tools for valuers but prone to make mistakes if left to their own devices. They are helpful but not conclusive.

Q42 **Mr Baker:** Finally, on the subject of mistakes, I feel sure that every Member of Parliament here has businesses that are having difficulties one way or another with their business rates and finding it very difficult to appeal and so on. If we were to go to annual revaluation, what do you think would be the effect on the appeals process? Would there be fewer appeals or would we just find that we are getting more bogged down in appeals as a result of more frequent revaluation?

John Boulton: That is a very important thing that needs to be considered. That is why I said earlier that annual revaluation is not the only factor that needs to be considered. In the Netherlands it is this transparency and ability to challenge in a much easier and more responsive way that is also an important part of the system. Simply moving to an annual revaluation, as you say, might numerically generate more opportunities for people to want to challenge. You have to do it as part of a basket of things to make it more transparent and simpler for taxpayers.

Q43 **Mr Baker:** Mr Emlyn Jones, do you have a final point?

Tom Emlyn Jones: I am trying to crystal-ball-gaze and think what would happen. Just at the moment, we are so stuck in the gloom that is CCA that I do not envisage the Valuation Office Agency reacting to any request for change if you are doing it annually. I just do not see it happening. Sorry; I am too blinkered to see the lovely high ground of annual revaluations working smoothly.

Chair: I have a couple of colleagues who want to come in with supplementaries. I am conscious that our second panel are also waiting. I am going to ask those who want to ask supplementaries to keep them short, as well as the answers.

Q44 **Mr Betts:** I have two short questions. Whether the answers are short is another matter. Mr Boulton, you talked about the principles by which the taxation system should be judged. You did not mention ease of collection and difficulty of evasion. Would it be true to say that a property based rating system is better on both those counts than, say, a turnover tax?



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John Boulton: That has always been one of the attractions of a property based tax: that the tax base is pretty easy to identify. That would clearly need to be considered.

- Q45 **Mr Betts:** Mr Emlyn Jones, we touched briefly on land value taxation, just on the edge with agriculture. Looking at your international comparisons and what colleagues elsewhere may have done, have you had any discussions about, or looked at, what happened in Denmark and Australia where they did move to a land value taxation system that seemed to go relatively smoothly? Did it? I do not know.

Tom Emlyn Jones: I have not had that but I could provide a written answer for that question, if we may.

- Q46 **Kevin Hollinrake:** Like most MPs, we have had some horrendous stories about the operation of challenging appeals. I have a simple question: is it getting any better?

Tom Emlyn Jones: There are a number of issues. One is that the IT is almost there now, two years into the list, in a slightly bogged down, abbreviated, not quite how we would have liked it sort of way. That is a huge issue. It means that we are now just beginning to test some of the other issues, and it has certainly shifted the burden from the Valuation Office Agency to the ratepayer to make their case. Okay, fair dos, but how that works out in practice and how the Valuation Office Agency deals with that has mixed reports at the moment. Some are quite favourable to ratepayers.

- Q47 **Charlie Elphicke:** On this issue about land value taxation and having property taxes on agricultural land, is either of you aware of the history of US sprawl cities where urban sprawls seem to be encouraged by the property-based taxation that they had, meaning that, as the city limits reached out, the land value taxes went up, forcing farmers to leave that and grow houses instead? It seemed to lead to urban sprawl. Is either of you aware of this?

John Boulton: You need to look carefully, if you are thinking in terms of a land value tax, at the distribution of where that tax would be collected. Agriculture benefits from a significant subsidy from Government at the moment as well as exemptions from the existing business rates system. In Denmark, there are a number of factors that come in to play that mean that agriculture pays a relatively low rate of land tax, not only because agricultural land is valued much lower but also because the system has been built in to minimise the impact of the tax on agriculture. As a country that subsidises agriculture, you might expect our system to have similar features.

Tom Emlyn Jones: Could I just quickly make a distinction? The suggestion we have made is that the agriculture becomes rateable. That would not have the impact of a land tax because land tax works in a slightly different way.



Chair: Right, so it is a different thing. Thank you.

- Q48 **Catherine McKinnell:** I was just going to ask you about some of the changes that the devolved Governments have made to their approaches to business rates and see what your thoughts were. There is no transitional relief in Scotland, Wales or Northern Ireland. Why do you think they take this approach?

Tom Emlyn Jones: They take it because the swings in value are perhaps not so significant as they are elsewhere, possibly. Perhaps the circumstances of their revaluations have not thrown up such anomalies. You would have to ask them.

- Q49 **Catherine McKinnell:** That may be your answer to quite a few of these questions but they may be some of the things that you may have considered, given it is often interesting to look at practice in different parts of the devolved authorities where there are perhaps suggestions and lessons to learn, which may be good or bad or adaptable or not to the English circumstances. In Scotland there was a 12.5% cap on rateable value increases. What do you think have been the consequences of that approach? Is that something you have looked at?

Tom Emlyn Jones: That is transition in another way. It is a different sort of fairness shifting the burden. If you were moving to annual revaluations, you might think that values would not move so much in a year and you could do it in that way, as it were. However, what we would say is that businesses would like consistent systems across all three. I know that is not quite in line with devolution but already having bills with this relief and that relief and different poundages in different countries and other differences all adds to the complexity such that, in a funny way, they would seek more alignment. It is which bits you would pick to align with where the trouble starts.

John Boulton: Clearly, a 12.5% increase in an expense that is a material part of your business model would be very problematic for any business, particularly for a smaller business where those things might be particularly material enough whereby it would be difficult to have the resources to challenge. Those measures are a symptom of a system that has within it things that make it very difficult for businesses to navigate.

- Q50 **Catherine McKinnell:** In terms of aligning, coming back to your point, Scotland has a six-month time limit for revaluations. Do you think that is something that could be implemented?

Tom Emlyn Jones: It is a terrible idea.

- Q51 **Catherine McKinnell:** What would be the challenges?

Tom Emlyn Jones: It is already problematic. What you want is for the rating list to be correct. It is fair if it is right. Anything that stops people altering it so that it is correct is unfair. What we found with the work time limits in England a little while ago is that the informed and the professional did not muck it and the uninformed and the weaker got



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caught out. It does not do anybody any favours. A very good idea, though, is the business growth accelerator.

Chair: Do you want to tell us a bit more about the business growth accelerator?

Q52 **Catherine McKinnell:** Do you think that might be something that we could use in England?

Tom Emlyn Jones: It means that, when you invest in some property, your rates for that investment are delayed a bit. It encourages investment. You have a few rows at the moment as to when you start paying rates but in that way you would resolve those questions more easily because people would be in there using the property, enjoying it and getting on with it. With council tax, which is not my area of speciality, there is something that happens like that at the moment whereby you do not get the extra charge until the next transaction on that property. If I put on an extension, my band does not go up until I sell the property. It is along those lines. Something like that is quite interesting to encourage investment.

Q53 **Catherine McKinnell:** Do you want to add to that, John? Scotland and Wales have both introduced 100% business rate relief for nurseries. What do you think of that policy? Is it a sensible policy? Is it sustainable? Is it something we should be looking at?

John Boulton: Clearly, that is a relief that would be very welcome by the sector, and is another one of those examples of something where there are real pressures for a type of business model. Businesses are really struggling to take productive decisions. There are many people who may want to expand a nursery chain or open a new nursery and, in doing their business plan, they really struggle with the material amount of rates that they have to pay, coupled with the difficulty of knowing exactly what the amount is going to be, as well as the potential difficulty of challenging it if that number is wrong. That makes productive business decisions much more difficult to make and leads to the need for reliefs, as we mentioned.

Tom Emlyn Jones: I would add it to my list of reliefs people are asking for but I would say that, if the Government want to help nurseries, help nurseries; do not jiggle around with the ratings system. Find a way to offer something per child or something like that.

Q54 **Catherine McKinnell:** One other alignment possibility is on small business rates relief, which in Scotland are higher than in England: £3,000 higher for an individual property and £15,000 higher where you have more than one property. Would it make sense for us to align with Scotland on those thresholds?

John Boulton: That would clearly be a very popular measure for very small businesses that would benefit. Entrepreneurial small businesses that are seeking to scale up or start a business can find business rates to be a real impediment, particularly with the certainty elements that I have



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mentioned. If you redistribute the rates, clearly there is an issue with who it is going to be redistributed to. If you have a threshold that you cross and have a much more material cost base at a point in time, it can really cause problems to a business model and to the continuity of that business.

Tom Emlyn Jones: I am less encouraging of that measure because what we are already seeing is that the rents for these small properties that are available for small business rate relief are going to eat up that relief because businesses look at rent and rates as one and they bid what they can afford, looking at the cost they have. That relief is a sticking plaster. It would be better to not do anything too fast but to slowly, slowly ease it back.

Q55 Catherine McKinnell: I have one final question that is not actually to do with devolved authorities but local authority areas. We have seen with Government local authority funding that the burden on raising local taxation through business rates is increasing all the time in order to fill the gap between the central Government grant and local services that require funding. Do you have any concerns in terms of impact on business rates and how they will be levied locally and also in terms of what they are ultimately going to pay for, which is often adult social care and children who require support within local authorities, and the huge differentiation within local authority areas of their ability to levy those business rates as well? Is that something that you have given any thought to?

John Boulton: Communities should benefit from increasing prosperity and there should be a system that encourages people to make productive business decisions that create prosperity that everyone can share in. Where there is a potential for productive business activity to be undertaken, it would be good to encourage that and for the incentives for local authorities to be aligned with ensuring that that can happen and for the incentives for businesses to be in place so that they are able to make those business decisions with confidence to benefit everybody. At the moment there are problems both with incentives that businesses get in terms of how they interact with the system and how it works for them mathematically and for the effect of incentives on local authorities, and they are not aligned.

Q56 Catherine McKinnell: Are there any recommendations you would make?

John Boulton: It comes back to that point about certainty and simplicity so that businesses simply know what the consequence will be of taking a business decision in terms of the rates that they are going to pay, and to have much greater certainty around that and much greater ability to challenge it if it is wrong.

Tom Emlyn Jones: I am just looking at a note I made previously. What businesses like is the UBR. If local authorities start making different UBRs in different locations, that will be something that they would not really be



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for. That stems from 1990 when each local authority previously had done their own thing. The figure I was looking at was that Southwark's poundage was £1.80 and Haringey's was £3.60. That was one of the reasons why everybody celebrated when the UBR came in because at least then it was less complicated. That would be my only comment on that.

Chair: Can I thank you both very much indeed for sharing your expertise today? We are going to have a bit of written evidence coming from you as well or from your team behind you, so thanks to them in advance. We have lots more evidence to take on this but you have started us off very well, so thank you very much.

Examination of Witnesses

Witnesses: Neil Leitch, Paul Crossman, Kate Nicholls and Mandy McNeil.

Chair: Thank you very much to our second panel for being here this afternoon. I am going to ask you all to introduce yourselves very briefly. Obviously, there are four panellists and, as I said before, this is a subject that I suspect all our panellists could talk about for quite some time, so I will ask that answers be kept fairly brief. Members of the Committee will try to direct questions to particular panel members as well but equally, if there is something covered that you want to say something about, please feel free to chip in. Mr Leitch, let us start with you.

Neil Leitch: I am Neil Leitch. I am the chief executive of the Early Years Alliance, which was formerly the Pre-school Learning Alliance. We are the largest membership organisation representing childcare services in the UK, and we are also the largest operator of childcare services in the voluntary sector, exclusively operating in areas of deprivation. We witness first-hand some of the challenges that hopefully I will be able to talk about.

Kate Nicholls: I am Kate Nicholls. I am chief executive of UK Hospitality, which is the national trade body representing the breadth of hospitality businesses, from a single-site pub right the way through to the national chains of hotels, restaurants and coffee shops, as well as high street and accommodation providers. It is a sector that is worth £130 billion. It is the third largest private sector employer and employs 3.2 million people, and it has been significantly hit by increases in business rates across the country and across all types of hospitality businesses.

Mandy McNeil: I am Mandy McNeil and I am the vice-chair of Save UK Pubs. I am here representing Save St Albans Pubs, the independent pubs in St Albans and around the country. About 30% of our pubs are tied and they are on the other side of the table from the BBPA as well as the UK hospitality industry. They are a voice that has not had a strong voice so we are hoping to be able to give them one today.



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Paul Crossman: My name is Paul Crossman. I am a multiple pub operator in York. I have three pubs, one of which was tied for 10 years and two of which were pubco disposal sites. All three of our pubs have been hit in quite interesting different ways with this revaluation. I am also a campaigner for industry reform in the pub world.

Q57 **Chair:** Thank you very much. Hopefully we will get to explore all of those bits and pieces that you have mentioned in the course of this evidence session. I want to start with a general question, perhaps to all of you. You just heard Mr Boulton from the ICAEW just saying that what businesses want is to know what business rates are going to be on a property or a premises; obviously, rates is a material amount that businesses have to pay. You are representing different sectors. Mr Leitch, shall we start with you? What do your members say to you in terms of making business decisions when they are looking at new premises? What do they ask about rates? How do rates impact on the decisions your members are making?

Neil Leitch: Members list it as the second most important factor in terms of business decisions. It is fair to say that we are in an unusual position, inasmuch as we are trying to deliver a free entitlement that is commercially restrictive. Just about every report, I have to say including from the Treasury Select Committee, has found that in fact the sector is grossly underfunded. We have seen the Government's own figures, released in February, show a reduction from 2016 to 2018 of nursery groups of 2,100. We have seen something like 16,000 child-minders go by the wayside in the last six years.

Q58 **Chair:** I specifically want to ask about business rates. I want to know, because we have done an inquiry on childcare. I want, from all of you, to hear about decisions about business rates.

Neil Leitch: The position is the sector is on its knees and, therefore, it will look very carefully before it invests, and business rates are a factor.

Q59 **Chair:** A high rateable value will put a business off opening new premises.

Neil Leitch: Correct.

Q60 **Chair:** Ms Nicholls, talk us through the decisions your members are making in terms of what a rateable value means to a member when it is looking at opening a business or continuing a business.

Kate Nicholls: It can be the difference between staying in business and going out of business for a lot of them, because business rates are the second largest cost that they have as a direct operating cost after you take account of employment and rent. Property costs and business rates are the second largest. It can account for around 4% to 5% of turnover, so it is quite material and it can be that tipping point that turns a business that would otherwise be profitable into one that becomes marginal and, therefore, you see the closures that we have seen on the



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high street. We lost 4,000 outlets last year net, so that is 10,000 jobs lost across the broad hospitality sector. That is a disproportionate impact.

It will have a material impact on when you are deciding to open and when you are deciding to continue. When it comes to investment and continuing to invest in your ongoing premises, which in a competitive market you need to do, there is a direct disincentive to invest, because the minute you do, you have a rates revaluation again and the rateable value goes up. It is a direct penalisation on success and investment in areas of the country and communities that need it most.

Mandy McNeil: On average, the independent pub-tied tenants take home £15,000 a year, if they are lucky. They have to buy a lease. The average price to buy a lease is two times EBITDA. They then have to put money into a deposit. They have to pay for all the refurbishments and ongoing maintenance. If you want to attract people, you need to improve your pub. A lot of people invest in their pubs, so they may take on a lease and they plan on being there for a long time, so they may spend tens of thousands of pounds a year and some of them a lot more.

The impact on 30% of those pubs was to more than halve their profits, and in some cases it was to take them away. If I wanted to go and buy Paul's pub, where he was taking home, say, £15,000, I would have paid him £30,000 for his lease, plus maybe a bit more because he was a good operator; his lease is now worth half as much, so they have lost their capital. It discourages people from going into pubs, but also it means that the people who own pubs cut staff, they pay themselves less, they borrow a lot more money and mortgage their house, and a lot of them are losing their houses.

Q61 **Chair:** Mr Crossman, you own three pubs. Are you able to give us any specific frontline experience of, when you get that bill, it arrives and it has gone up, what goes through your mind as a businessman?

Paul Crossman: When the 2015 figures were taken, I had two freehold pubs at the time that were pubco disposals. I also had one that was leased from a major pubco and at that point we were still tied. Having been quite a prominent campaigner for the Pubs Code, my pubco knew that I was going to apply for market rent only, which was to opt out of the beer tie, which has been very difficult for a lot of people. I was very early in the process. My lease renewal came at that point, and at the same time we got hit with the revaluation. I can say without a shadow of a doubt if we had not secured a free-of-tie deal, I would not have stayed at the pub. That is the difference it made. It went up by 60% for that particular pub. There was no material change to the building. There was no material change in any sense, other than the fact that we were trading well.

I immediately got on the phone to the VOA and said, "We are overtrading. You are rentalising our goodwill, or rather rating it, which is not meant to happen". I said, "Basically what you have done is you have



10% of my declared turnover from 2015", and they said, "Yes. It is up to you to now convince us that you are overtrading". Having been a pubco tenant for 10 years, I can assure you that it is virtually impossible to convince people that you are overtrading. You have to get expert help to do that. You need to get a RICS lawyer to represent you. You pay for that. I was warned that the check, challenge, appeal process was going to be a nightmare by two local surveyors, both RICS, which has turned out to be the case. If I had not got my free-of-tie deal that pub would have gone back to the pubco and become a chain pub, which was the worst possible outcome from my point of view.

The two free-of-tie pubs also got hit with increases. One got hit with a 60% increase, but it started from a much lower base than the tied pub. Our other free-of-tie pub got hit with a 640% increase. We had taken it on. It was a failing pubco site, as so many are that get disposed of; they are on their knees. We invested. We put all of our time and effort and loads of money into it. It yielded results and those results immediately got factored into the calculation for the rates review. All three pubs got hit quite severely.

Chair: That is a disincentive. We are going to come on to that in a moment.

Q62 **Mr Baker:** You have intimated some of the answers to these questions. I wonder if each of you could just characterise how important investment is to the maintenance of the appearance of your businesses and, indeed, their compliance with regulations. Perhaps, Mr Leitch, you might like to start.

Neil Leitch: We have a mandatory requirement in terms of space, and we are inspected by Ofsted and the environments are absolutely critical. We have had more and more drives in recent years for outdoor play, for example, which means that we have to invest in equipment and resources. It is fundamental for us. When you walk into a nursery it has to feel right, it has to feel safe and it has to feel good for parents, and that means investment.

Q63 **Mr Baker:** Ms Nicholls said earlier what amounted to a suggestion that business rates were a tax on investment. Mr Leitch, would you agree with that?

Neil Leitch: I would, yes, absolutely.

Q64 **Mr Baker:** Ms Nicholls, would you like to expand on that point?

Kate Nicholls: Yes. If you look at the hotel sector and small independent hotels in particular, they are on a refurbishment cycle of about seven to nine years, where they would do full refurbishments in order to stay clean, tidy, appealing to customers and up to date with modern customer trends. That is a big issue as well.



On the restaurant side, you are looking at three to five years, which is the same as pubs, depending on the type of the pub and where you are located. You are continuing to invest and improve your facilities. The market has got ever more competitive over the last five to 10 years, where customers can go out and eat and drink wherever they would like to, stay wherever they would like to, and you have unregulated parts of the economy, like the sharing economy, who are coming in and providing an alternative form of service to those customers.

You need to continue to invest in your premises and, if you do and if you try to improve your offer and extend your offer, then the valuation office will come back to you and say, "You have improved your business. You have increased your turnover", in the case of hotels or pubs, "and therefore we would like an increase in rateable value". It is not uncommon to have the revaluation take effect and two years later to have a big increase in rateable value or, as Paul said, you take a rundown pub that needs a lot of care and attention, for which the same would apply to hotels, cafes and restaurants that need that investment, and again the valuation office comes back and revalues it. You can see an increase there, so there is a disincentive for those good operators who continue to invest in their premises and their product.

Q65 **Mr Baker:** Ms McNeil, is it a tax on investment?

Mandy McNeil: First of all, we should probably say that FMT is supposed to take this into consideration, if you read the 2017 guide to valuing pubs, but, as we will all probably talk about soon, it does not. In St Albans and around the country our pubs are valuable community assets and a lot of them are grade II listed pubs, so they require a lot of maintenance and, if you are a tied tenant, you are responsible for them. That might be, for example, in a lovely market town, such as St Albans if you come to visit us, a new roof, and the roof might cost £200,000, or disabled toilets.

You want to go to a nice pub, so the people who are buying them are putting in tens of thousands of pounds, hundreds of thousands of pounds or, in some cases, mortgaging their house and putting in some major investment, because they want their pub to be an outstanding attraction for the town. Also, a lot of people who go into the pub business love old pubs and want to do credit to that asset. It is hugely important and it should be being taken into account in FMT but it is not.

Q66 **Mr Baker:** Mr Crossman, would you like to add to that?

Paul Crossman: Those are good points there from Mandy. With our two pubs that we got as disposal sites they were in such an awful state, which is normal because they had had no investment for at least 20 years, that we had to invest heavily just to bring them up to an acceptable trading standard. That then resulted in an uplift of trade. We did that because we bought the pubs. I am not someone who is massively money motivated. I do love the business; I love the pubs. We did it for that reason. That is



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fine. They make enough for us to get by on, but it was a good thing to do. Somebody who is far more financially motivated might look twice at them and just say, "No. There is no return. There is no point", so you are relying on people who do it out of goodwill, almost, and then they get hit with a rates increase.

I am quite an enthusiastic taxpayer. I am not someone who argues to avoid tax in any way at all. I am afraid it is to do with FMT. This whole business rates system on pubs and hospitality is totally out of control, I am afraid. Kate has some figures in her submission. We pay 11% of business rates in hospitality and we are responsible for 2.5% of the business activity in the economy. That cannot be right. That shows you that FMT is a complete disaster and I am afraid that is because it was sold by the industry to the VOA.

Q67 **Mr Baker:** I would like to just steer this conversation a little, if I may, because with all of that in mind I am just conscious that you all reacted one way or another when the conversation in the previous panel turned to the idea of a turnover tax. I wonder if any of you would like to add to that conversation.

Paul Crossman: We already have one. We have a turnover tax. I thought VAT was meant to be the only sales tax.

Q68 **Chair:** Do you mean because of the way the FMT works?

Paul Crossman: Yes, because it is just applied brutally.

Mandy McNeil: It is because of the way it was implemented.

Paul Crossman: It is applied brutally to the turnover. There is not even an attempt to assess proper FMT. There is no attempt to disregard goodwill, investment or all the things that that methodology is meant to disregard. I am afraid, to come back to it, it is exactly the same in the tied pub world. If you are in a rent review, your goodwill—

Chair: It is taken against you.

Paul Crossman: It is just totally disregarded. In fact, if you are in a rent review with your pubco and you have a RICS surveyor that comes in with the initial bid, it will be higher than you have ever done. It will be based on more trade than your pub has ever done. I guarantee that. That is the story of every licensee that I know.

Kate Nicholls: To pick up on Paul's point, that 11% of all business rates paid by hospitality is hospitality as a whole. That means we are overpaying by £2.4 billion, and these are the sectors of the economy particularly that are investing in high streets, that are investing in suburban shopping locations and that are investing in local communities. There comes a tipping point where they cannot pay any more into that pot. You heard a lot about cake and there is an insistence on a certain



amount of cake and there is a disproportionately small number of people who are continuing to pay into it. That is the problem that you get.

With the turnover issue, again, you are dealing with sectors that have an artificially inflated turnover, because we are very highly taxed and the tax is included in that turnover calculation. That is not just for pubs. That is also for hotels. Turnover tax is also coming in restaurants, because rents are increasingly set by reference to turnover now. You are building up a bubble in a sector of the economy that has been in growth, is still forecast to be in growth and is still forecast to deliver 5% growth year on year for the next five years, but it is on its knees at the moment, having had a third of its profit margins wiped out. It has no further scope to invest and to continue to sustain the burden of business rates that it is.

Neil Leitch: I was always taught that turnover is vanity and profit is sanity, so that has to come into the equation. It may, in the early years, have a counteractive effect because, from our perspective it is shown that you have to have high volumes to make the thing work. It is the smaller nurseries and groups that are going by the wayside, but they are needed, despite the fact that they are small, in rural communities, et cetera. Therefore, you just might have settings hold back in terms of investment, expansion, et cetera. It feels slightly counterproductive to me.

Mr Baker: The Chair needs me to move on and, if you will forgive me, I also need to go and ask a question in the Chamber. Thank you very much for very interesting evidence.

Q69 **Mr Betts:** Just to begin with the whole issue of appeals, when the then Communities and Local Government Select Committee did an inquiry into business rate retention, one of the biggest complaints we had was the appeals system, both from the point of view of the appellants, who were waiting a long time to have decisions made, and local authorities, who were having to hold back reserves to cushion the possibility of losing appeals. We are told by Ministers now that it is all a lot better. There are fewer appeals and they are all getting dealt with much quicker. That is not how you are feeling about it.

Kate Nicholls: No. There are still about 57,000 cases at the challenge process that are outstanding. That is two and a half to three years after implementation. 60% of all check appeals, which are the initial most basic, "Have we got the right figures for you?", that went through were successful and saw rateable values reduced. The fundamental starting point is the valuations are not being conducted correctly. They are still inaccurate. You should not be relying upon a system that requires the taxpayer to continually go back and check and challenge. If you have 60% being changed as a result of a check and you have a backlog of almost 60,000 challenges, that is an appeals system that is still not working as effectively as it could and the initial valuation is still not as accurate as it could be.



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Q70 Mr Betts: Is at least having a check stage an improvement on where we were?

Kate Nicholls: For hospitality, no, because most of the hospitality valuations that we have talked about, like FMT and the hotels one, which is turnover and profits-based, and the restaurant one, which is turnover and rents, all require a great deal more complexity and individual assessment than something that is like a supermarket or like an office, where it is, "Is this what your rent is per square foot and is this where you are located?" Therefore, the majority of pub, restaurant and hotel appeals that went through could not be resolved at the check stage. They all had to go to challenge, because they were all open to interpretation.

Mandy McNeil: In 2017, when the business rate increase was implemented, one of our landlords walked over to the office, sat down, took her papers and said, "My business rates have doubled. Can we have a conversation?", and got it resolved then and there. Sitting behind me are a couple of landlords from St Albans, one of whom has been waiting two years so far. In fact, for a year they forgot that they had his case. My understanding is he rang them earlier this year, got put through to somebody in Newcastle and then to somebody in Northern Ireland, not getting emails back or getting anything answered.

When you go and look at the check, challenge, appeal website, a lot of people did not know that they could do it, because it is new. You go on there and it says, "Here is where you check. If you do not hear from us in 45 days, please come back. Here is where you file the challenge. If you do not hear from us within 18 months, please come back". It is all over the place. There is just an absence of resource and possibly it has not been implemented properly in the IT world as well.

Q71 Mr Betts: Is this relatively new when you put things in historical perspective?

Mandy McNeil: It just happened.

Q72 Mr Betts: If we went back 20 years, would we have similar problems or would the appeals system be a lot easier and quicker? Is it about resource in the end?

Kate Nicholls: It is fundamentally about resources. In our sector it is about resources to get the individual valuation initially right, which is still a fundamental problem, and then it is the resources of doing that very detailed assessment. As I say, it is not as easy as going and doing an office block, so that has been quite a fundamental problem. We have always had long delays in hospitality in getting appeals heard because of the complexity of the cases, but at the moment it is not getting any easier and it was promised to be easier.

Mandy McNeil: They also closed down the local offices at the same time as implementing the new rateable values.



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Kate Nicholls: If I could pick up one of the points from the earlier session as well, the forms that they told you were very simple are if you are a surveyor. I like to think of myself as reasonably well-informed and up to speed and I tried to deal with business rates on behalf of the sector for about 10 years. I still found it almost impossible to try to do the process for my own office, let alone trying to work through the complexity for a pub.

Paul Crossman: For my part, I have not appealed any of them. The conversations I have had with these two local surveyors really put me off. My experience of dealing with this whole issue of rent-setting and rate-setting put me off. There is a very quick direct quote here from this local chap: "Unless the VOA has incorrect information, there is very little chance of success. The majority of submissions fail and can lead to an actual increase in rates payable". That is enough to put anybody off, and that is a RICS surveyor.

Mandy McNeil: There is also another point in terms of tied pubs. If you are doing well, the pubcos might want to try to take the pub back, so that it becomes managed. For a lot of people who have had the higher revaluations, especially if you are going to seek a market-based rent, a lot of the pubcos or their counterparties are doing what is called a section 25, where they are basically going to end the lease and they will pay you two times your rateable value. Appealing your rateable value in circumstances like that means that you are going to get paid less from the pub company, so there are a couple of other things going on at the same time.

Neil Leitch: For early years, we are made up of lots of single-site providers, so Pareto analysis just does not apply here. The reality is that most providers will tell you that the probability of success is incredibly low, so they just do not bother.

Q73 **Mr Betts:** Let us go back to the methodology for the hospitality industry, which is different in terms of how your rates are calculated. Do you think that is the reason why the hospitality industry pays more than its fair share in your view? Would you want to go to the same system as everyone else in terms of calculations or do you simply think the methodology is okay, but the multipliers need lowering?

Kate Nicholls: It is the fact that anything the Treasury does with business rates has to be fiscally neutral. If you have a sector that is in growth, there will be a number of business premises that are fixed and are set in those high rateable value and high rent areas—because we cannot move our business online and we cannot do it on a virtual basis to make the property more productive. We have to be in areas of high footfall in order to generate the trade. The Treasury is fixated on getting £26 billion to £27 billion in business rates. If you have big businesses that are moving their premises out of city centre locations or moving towards a more online model, there is a smaller pool of businesses that are able to pay in and generate that £26 billion, of which hospitality will



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be a large one. If you look at the figures about the proportion of business rates that are paid, it is not a surprise that retail and hospitality are now disproportionately paying the share of business rates.

Q74 Mr Betts: I suppose the follow-on question, then, is, given the Treasury wants any change to be fiscally neutral, and I suppose local government does as well because it pays for services, if you are overpaying, who is underpaying who we should be getting more from?

Paul Crossman: In our sector?

Mr Betts: No, just everywhere.

Paul Crossman: Because there are people underpaying in our sector.

Mr Betts: Say those, but also just generally.

Paul Crossman: This system rewards failure and penalises success. It is quite important to notice that. About half the business rates went down for pubs, but the ones that went up went up astronomically and punitively for being good operators.

Mandy McNeil: We looked at 3,000 pubs and in each constituency as well and in most of the constituencies 50% of the pubs had decreases, 30% of the pubs had increases of more than 50%, and 10% of the pubs had increases of greater than 100% and in some cases upwards of 900% and 1,700%. That is because they were looking at turnover. What we also saw is that the pubs that had the decreases were basically offset by the top 10%. They basically just shifted the tax burden from the underperformers to the top pubs.

Q75 Mr Betts: Overall, you are saying that hospitality pays too much. As a percentage of GDP, it is a lot lower than the percentage of business rates you pay. Who is not paying enough then? If it is going to be fiscally neutral, who would have to pay more for you to pay less?

Mandy McNeil: Supermarkets who are selling beer cheap.

Kate Nicholls: Business rates were last fundamentally examined and looked at in 1988. I did not have the internet then. I did not have a mobile phone and a computer in my pocket. The whole marketplace and the economy has changed out of all recognition since 1988. Then property was probably a good comparator for business. If we are calling it business rates, it needs to bring in sectors of the economy that are productive, that are generating a lot of money and are needing to contribute to local public services.

The big areas that you are missing are the whole explosion in online products, services and distribution. Those are the sectors of the economy that you need to look at, and one of the ways of doing it is to accept that you stick with a property-based tax and you reform the business rates, but you reduce the amount that you take as the Treasury and you make



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up for it in an online digital sales tax. That is one way of doing it. I would argue you probably need both. You need reform of the business rates system and you need to look at how you get the online and digital community to pay its fair share.

Paul Crossman: Can I add to that? I agree with Kate. I do not want to point fingers at other sectors that maybe should be more heavily taxed, but the national mood would probably say online is an issue that you might want to look at. It is a decision for the Treasury, really. One thing that I really would stress is that this is causing genuine problems with pubs and with the high street in general. We are all desperately worried about the state of the high street. This is something that has to be dealt with. It has to be. It has to be transferred away from that. That burden has to be moved away to give us a chance.

Q76 **Kevin Hollinrake:** Just on the check, challenge and appeal process, Colliers did a freedom of information request to the valuation office in 2017 about the percentage that were dissatisfied with the check, challenge and appeal process. 72% were dissatisfied. Last year the Communities and Local Government Select Committee wrote to the Local Government Minister about this, and he acknowledged there had been some challenges but intimated that things were getting better. Is it your experience that the check, challenge and appeal process is improving or not?

Kate Nicholls: If you go back to when it was originally introduced versus now, there has been some marginal improvement. The speed has increased and the responsiveness has increased. They were deluged initially. It was a classic case of an IT infrastructure that was not capable of meeting the needs of the individuals at the time. It is improving. It is marginal.

Q77 **Kevin Hollinrake:** A marginal improvement, so it is still not fit for purpose.

Kate Nicholls: You still have 60% that are outstanding after two and a half years. That is a long time for businesses to wait to get an accurate tax bill.

Q78 **Wes Streeting:** Good afternoon. Beginning with you, Neil, and Kate, first, could you just outline what proportion of your members benefit from small business relief and whether you think that percentage equates to those that you would consider to be small businesses among your membership?

Neil Leitch: Research undertaken by CVS indicated it was around 30%, although there were lots of caveats attached to that research. What we do know from a latest report is that 53% of providers are outside the scope of the relief threshold, for example, and 11% would be within the tapered level, so it is fairly small-scale for us.



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Kate Nicholls: We estimate that it is about 24% of hospitality businesses across the spread of hospitality businesses that would benefit from small business rate relief. That is largely because our rental values are significantly higher in hospitality than a lot of those thresholds. If you put it in context, the Government's own figures suggest that 85% of hospitality businesses will be SMEs, so what we would consider to be a genuine SME is not covered by small business rate relief and often it comes about that you cannot benefit from it if you have more than one premises. You do not have to have much more. You might just have a small office and a pub or a restaurant or a hotel and suddenly you are outside the scope of it.

Q79 **Wes Streeting:** We will come on to single properties shortly. In your written evidence, Kate, you also said that the reliefs can also seem arbitrary. Can you just elaborate on how you think these reliefs are arbitrary?

Kate Nicholls: By and large, they are discretionary for a local authority to apply and the Government, in particular when they issued the most recent reliefs in 2017, when the new regime took effect, gave local authorities complete discretion to set their own rules as to whether these reliefs could be applied in hospitality. A lot of local authorities took that at face value and wrote their own rules, which is entirely their entitlement to do, but many of them said that the discretionary rate relief and the transitional relief for those businesses hardest hit would only apply if you had a single site, even though that was not Government intention and that was not set out in Government policy.

Some local authorities decided that it would not apply to certain types of businesses and other local authorities applied conditions to getting the rate relief. For example, in Barnet you needed to be signed up to a healthy eating pledge and initiative, which a lot of pubs and restaurants offering normal meals were not able to comply with and so did not get their rate relief. It is the fact that there are often arbitrary local applications for the transitional relief or discretionary relief that Government has set aside, and it was no surprise to us that in the reports after 18 months or two years that discretionary relief had not been drawn down in full and the amount that the Treasury had made available had not been taken up by local authorities and passed on to businesses.

Q80 **Wes Streeting:** Some of the examples you state there in response, which you consider arbitrary, might be described by others as localism working effectively in practice. How would you push back on that assertion?

Kate Nicholls: You need to have that clarity with the local ratepayers and it goes back to the points that were made in the first session: as a business it is not unreasonable to expect that there will be a fair and even-handed approach, that it will be transparent and that you will know what will be expected from you. If you have the Chancellor standing up at the dispatch box making pledges about what relief will be made



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available and then you cannot get it from your local authority because you do not know what rules you should apply, that creates a disconnect locally, which means that localism does not work in practice. Localism only works if there is a clear framework and people know what is expected of them.

Wes Streeting: I agree, though it would not be the first time that assertions made at the dispatch box do not quite tally with the real, lived experience. Sorry, please excuse my cynicism.

Chair: So cynical for one so young.

Q81 **Wes Streeting:** Moving on to the wider panel, I am interested in how much of an impact all of you think the loss of small business rates relief might have on expansion plans for businesses. I am looking to you, Mandy and Paul; I have not heard from you yet. Is this a factor for your businesses or the pubs you are representing?

Paul Crossman: My view on relief is that the situation is so confusing that as a businessperson it is really hard to make any plans, really. The high street relief was hugely welcome I have to say, but I was lucky because I benefited from that. My RV is 42. If it had been 10 more I would not have got any. I know people that literally are just the other side of that cliff edge, and they are distraught, because if they have a competitor down the road with £2,000 less rateable value, they are being handed an £8,000 per year business advantage. It is clearly not right the way it is.

My view is that that should apply to possibly every pub. Maybe say the first 50 for every business would get that, in the same way you do with an income tax base or that kind of thing. I have three pubs, so I am afraid small business relief is not a factor for me, even though two of them would qualify.

Mandy McNeil: 30% of the pubs saw increases above 50% and a lot of that shifted them from the below £51,000 to the above £51,000. I will just give an example here. Sean is behind me and he has a pub that could fit into this half of the room, and you guys are in the bar serving. His rateable value went from £27,000 to £103,000. He was paying £13,500 per year. He is now paying £57,500 per year. It has written off something like 70% of his profits and he has to sell 22,000 pints more a year in booze. He is not eligible for any business rate relief. I believe there were some savings in terms of tax relief on beer, which equates to about £25 or £30. If he sold more that is how much he would get back.

Paul has given the example of his pubs, but we are seeing pubs next door to each other in high value areas, which have the same offering and are the same size, where one pub has a 60%, 80% and in one case 200% increase in business rates, and their next door neighbour or their neighbour across the road has seen a significant decrease. One is



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overperforming and one is underperforming, or in one scenario one had been closed for six months of the 2015 year period.

Also, pubs are taxed differently than others, because it is not square footage. It is supposed to be fair maintainable trade, but at the moment it really is turnover, so it just does not seem to be fair that it is thrown into the same bucket as everybody else as well. The first £51,000 applying to everybody, irrespective of your rateable value, would provide some relief.

- Q82 **Wes Streeting:** Before I bring in Kate on the same point, just sticking with pubs, Kate already alluded to the issue of relief only being available for single properties. Would you just like to elaborate for us? I know you addressed this in your written submission as well, Mandy, but is there anything you would like to add further to your submissions to the Committee, in terms of the challenges that this presents to pubs?

Mandy McNeil: I would have to probably get back to you on that one.

- Q83 **Wes Streeting:** That is fine. Your written submission did address that. I just wanted to give you the opportunity, but that is absolutely fine. Kate, do you want to just return to that issue?

Kate Nicholls: The specific point about small business rate relief is that as soon as you add another business or another business premises, which does not have to be a high rateable premises and does not have to be a second pub or a second hotel, you have lost any ability to get that rate relief altogether for all of your premises. We had some examples where members did have an office above a pub and they took it as two separate premises at rateable value and, therefore, they did not get any benefit, where both of those businesses should have had small business rate relief.

The other point is that the increases in rateable value and what Mandy has said is not uncommon across the country, where you suddenly have people going up into hundreds of thousands of pounds worth of rateable value. What also had the single biggest impact in 2017 was the Government's decision not to allow transitional relief and not to spread the rate of increase.

Previously, when any of the businesses had been factoring in and looking at planning for business rates, they planned on that transitional relief being over the course of five years. If you had a rateable value, and you could be a single-site small business having a rateable value of over £100,000, that increase went in in two years and 50% of the increase went in in the first year. That was the thing that was the game-changer as far as most of hospitality was concerned, where you suddenly had to find a huge amount of money in a step change. You have to have that and you have to be able to pay that business rates bill before you can open.



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Paul Crossman: Can I add to that? Of the pubs that I have, for the highest rate pub the transitional relief has been eaten up in two years. We have gone from £26,000 to £42,000. That is big—£16,000. We do not pay all of that. We pay 50% of that. The entire relief has been used in two years.

The other pub, which had a 640% increase, started from a much lower base, so even though it is up in the higher transitional relief band, so that it goes up by the same percentage as with our other pub, we are still way down there, because it is based on a very low base. For the third pub, because the RV stayed below 20, the transitional relief worked in a whole different percentage. It is another way in which anything that is vaguely successful seems to be being really heavily penalised.

Kate Nicholls: Businesses only had about four months' notice of that. We were sitting waiting for those details to come out and we had very little notice. That is what makes it so difficult for businesses to be able to respond.

Paul Crossman: Bear in mind that the first and second pubs I was talking about are 70 yards apart. One has had £16,000 all gone already and the other one is still tiny, because it was based on such a low base. If they were competing pubs and not under the same ownership, that would have handed one of those pubs a massive competitive advantage over the other one.

Q84 **Wes Streeting:** I have just two final points, on specific points. Kate, in UK Music's written evidence they said there is difficulty in obtaining information about how venues can receive relief from a performance point of view. I just wondered if that is the experience of others within the hospitality industry.

Just so I do not fall foul of the Chair's final question, Neil, I will also just bring you in quickly. The FSB reported that local councils are unlikely to provide discretionary business rate relief to childcare providers. I wondered if that was consistent with the view of your members and, if so, why it might be that local authorities are not providing relief to your businesses.

Kate Nicholls: I will try to be very brief. When we had the high street retail rate relief and hospitality rate relief there was a general assumption that it would apply to hospitality high street businesses, music venues, nightclubs and hotels that are on high streets in those areas. It does not apply to them and it is partly to do with planning differentiations. MHCLG set the rules around planning controls. If you fall into a planning use class, you are fine. If you do not, you do not. Music venues, nightclubs, et cetera, are sui generis, so they do not qualify for that rate relief, even though otherwise they would do.

Neil Leitch: Successive Early Years Ministers have tried to steer local authorities to do what they would describe as the right thing and give



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discretionary relief. The reality is that at this point in time we are only certain of one local authority that has done that, which is Haringey. There is just a general conflict of interest here. If you are faced with cuts yourself and then you basically have to give even more money away, you are conflicted. That is why, to come back to the invitation to look at some of the international models here, is it not interesting that, when a directive is given from either Scotland or Wales, it happens? It is a tall order to try to think that local authorities that have all sorts of challenges and requirements will just say, "Let us do the right thing". It needs a strong directive and we should look to Scotland and Wales, who have set the example.

Wes Streeting: With money to follow, I would add, as a former deputy leader of a London borough.

- Q85 **Catherine McKinnell:** I was going to say the same thing. I guess it would come back as well to that issue of some local authorities being much better placed to absorb that within their ability to raise additional business rates, because that cost is likely to be passed on to other businesses, than other local authorities. It is an interesting proposition to look at, but it is not without its challenges as well.

Neil Leitch: The cost of not doing it, though, is absolutely enormous. We have a Government initiative that is not likely to recede in any way. Just about every political party has increased upon this free entitlement offer, so the position will get worse and, therefore, somebody has to be brave enough to do something about it. The evidence is that trying to dump it on to local authorities fails. It does not work.

We are dealing with a social responsibility. Just last week the Social Mobility Commission came out and said, "You should be extending the 30 hours". Then you have the economic position of trying to get parents back into the working environment. The failure of not doing this is substantially greater, I would suggest, than the costs associated with giving relief.

- Q86 **Catherine McKinnell:** Absolutely, thank you. I wanted to ask about rental values and business rates. It was touched upon with the last panel, with the historical linkage between any reduction in business rates simply being a windfall for landlords, because they can charge higher rent, and market forces would indicate that they will if they can. Is this something that you are seeing? Do you share this concern that, rather than being a benefit to the businesses, it is simply a shift in where that money comes from and goes to? Rather than coming to the Treasury, it just goes to landlords. I am getting a thumbs up.

Paul Crossman: That is the absolute crux of the situation pubs are in. The mess they are in now is a result of exactly what you are talking about. The last significant negotiations between the VOA and the industry were conducted with the trade-related valuation group, which is part of RICS. The outcome was this system. I know it vaguely relates back to the



old brewery days, but FMT was a new construct. It is a new idea. It relates to the profits method whereby rents are assessed within the industry, but it is different to the profits method because it has this number of about 10%—between 9% and 12% or whatever, depending on the type of pub. It is like a straight percentage calculation based on a notional FMT.

There are so many elastic variables within this system. I am going to be blunt, sorry. It is totally corruptible and it has been corrupted. When the VOA agreed this system with the trade-related valuation group, it says a lot that the person chairing the group was the national rent controller for Enterprise Inns. If you are going to look at the way this benefits pubcos, you need to think about the fact that at that point they had huge estates. The two big ones had 8,000 pubs each. If you can get a system whereby your rates come in under the rent that you aspire to get, that filters down through the system. It affects something called the divisible balance, which is what rent is set on within the industry, and it means that basically the pubco gets more rent, which then they can extrapolate into higher freehold book values for the properties.

If you look at the size of the estates, this might sound fanciful and it might sound like a conspiracy, but there is ample evidence to suggest that the industry was quite gleeful about the way they persuaded the VOA to adopt this system. It is unique and that should say something. I do not know why it is unique, other than that is the only explanation I can think of. It was sold by the industry.

Mandy McNeil: I have a similar and slightly different view, because the BBPA also has managed pubs, so it does impact them. There is a major issue.

Paul Crossman: It is now.

Mandy McNeil: Yes, but there is a major issue, because you had only certain people represented at the table. It is a capitalist world, so they want to the profits. At the moment the real problem is that a lot of the landlords in their lease negotiations, their annual rent negotiations and their market rent negotiations are having difficulty because the increase in rateable values means that the landlords say, "You need to be paying a higher rent".

Again, with the landlords sitting behind me, they are in conversations with their pub companies and, as a result of Sean's increase, his pub company now wants an extra £10,000 a year, because why not? There is a major conflict of interest and it certainly is not fair. Whether the FMT would work or not, we do not know because it has not been properly implemented. It needs to allow for a fair and reasonable profit margin, especially for the people who already have quite small margins.

Q87 **Catherine McKinnell:** What about beyond pubs?



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Kate Nicholls: Beyond pubs, there is a working assumption among MHCLG officials that if rateable values go up and rates go up, rents will come down. That bit is broken. That is the assumption that they have. It is a bit of a seesaw. It is a two-way thing. It is not just that you have one. It is going the other way. I have had that come back to me as a, "If rates have gone up that significantly rents will undoubtedly come down because of that". That is broken in our system for hospitality.

Hospitality is now unique among high street businesses in needing a long lease. You have to have it for the return on investment in fit-out. It is 25 years. A lot of the retailers and a lot of the office spaces are now not rent-reviewed. They are only short-term leases. It is really unusual now to find a lease that is longer than three years, except in hospitality, where we need 25.

If you move out of the pubco world into the general hospitality world, they will usually have upward-only rent review clauses written into those leases, and those are usually applied. You have rents only going one way and certainly not coming down to make an adjustment.

It is turning a supertanker. If you are going to rely on rents and rates to offset each other and to reduce the impact on the business, you are turning a supertanker in terms of the time it takes, so it is not responsive as a system to economic need.

Q88 **Catherine McKinnell:** What is the solution?

Kate Nicholls: To the whole conundrum of business rates?

Q89 **Catherine McKinnell:** No, although if you have that then we would be happy to hear it. I was thinking more of this particular challenge. You would say, "Do not put up business rates". Would that be your solution?

Kate Nicholls: No. Back to Paul's point, we are all willing to pay our fair share of taxes.

Q90 **Catherine McKinnell:** No, but in terms of making sure that balance and auto-correction can occur, could you have compulsory rent reviews for long leases?

Kate Nicholls: You do have rent reviews, but they need to be downward as well as upward.

Q91 **Catherine McKinnell:** They could also be linked to business rates.

Kate Nicholls: They also need to take account of business rates. It is back to the profitability point. You need to look at the business costs. It is not just looking at the turnover the business is making. It is looking at the costs they are bearing in order to generate that turnover and making it more linked to a period to pay. Then you look at comparables within the marketplace, but you need to make sure they are fair comparables.

Q92 **Catherine McKinnell:** To be honest, those were the questions I was



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going to ask you, so unless you want to offer your solution to the entire business rate conundrum—

Kate Nicholls: To be honest, from what you are hearing, you have a system that is fundamentally not fit for purpose in the modern economy. It is out of date. It needs to deliver the pledge of root-and-branch reform that was offered. We probably have a unique set of circumstances now where we could do. You need something like a royal commission or a fundamental independent inquiry, because there will be winners and losers. Whichever model you take, there will be winners and losers, but you need to modernise it.

Something that was set up and is fundamentally unchanged since 1998 does not work for the modern economy. You have just heard a whole series of sticking plasters that are trying to patch over the cracks and make sure we can get through, as ratepayers, the general public and voters, but also the local authorities, because they have to fund vital public services and we need to find a way of doing that, so that we are not all penalised and scraping around.

Q93 **Chair:** Just before I hand over to Kevin, I do not know, Kate, if you were in the room, but I asked the first panel whether they thought this was a system that needed a complete overhaul or whether changes could be made to it to make it work better. From what you have just said, we have gone past the point of making adjustments to a system. It does require a complete root-and-branch reform.

Kate Nicholls: Yes, you are right. You have to have that holistic view of business taxation and who is contributing. It might end up that elements of business rates are saved and you might end up with property tax within that basket, but you need that overarching root-and-branch reform.

Q94 **Kevin Hollinrake:** Just moving away a little bit from the root-and-branch to the current system, I will start with Mr Crossman, because I have been in all your pubs and they are excellent. Chair, I would suggest a field trip. If I can ask each of you in turn, if you had to think of one improvement to the current system that would make life better for you and in the context of what it would cost the system as well, having said that, what would you do?

Paul Crossman: I would like to think that the FMT could be made to work, but I just do not. The industry is too adversarial. The interests of operators are so at odds with the interests of business owners that it just simply is not going to work. I am sorry.

Q95 **Kevin Hollinrake:** What is going to work? What change would make a difference?

Paul Crossman: The only way that I can think of is that you consult, not just with the industry but with operators, and come up with a collective solution. I do not know what that will be.



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Mandy McNeil: FMT could possibly work. We do not know. I totally agree that it needs to be looked at. It should not be turnover. It needs to take into account basically people being allowed to make an equitable profit, so that would be it: some system that allows people to make an equitable profit. An immediate fix now would be resource for the VOA.

Kevin Hollinrake: We need a new VOA.

Mandy McNeil: Yes, resource.

Kate Nicholls: Aside from my long-term royal commission—

Kevin Hollinrake: Yes, I have another one for you. You can come to that in a second.

Kate Nicholls: In the short term, every year our business rates bills go up, even if we do nothing, because you have a CPI or what was an RPI multiplier. Any benefit that goes through in terms of rate relief gets eroded by the fact that your bills have gone up 2%, so just cap that. Freeze it. Do not put through any more increases next April or the April afterwards. The fact that it is April, which is the same time as a lot of other regulatory changes and cost increases go through, is not insignificant. Freeze it. Do not have that 2% increase.

Neil Leitch: Mine is slightly selfish, inasmuch as I have not thought too much about fixing it because we would like to be removed from it. We want recognition for the contribution that early years makes. Therefore, we would like to be removed from the system.

Q96 **Kevin Hollinrake:** Thinking really blue sky here, you mentioned a royal commission. It is an interesting way forward, but do you have any ideas of what you would like to see a royal commission come up with, if it did come out with a completely new solution?

Kate Nicholls: It is fundamentally back to the way in which the online community and the digital economy can pay and contribute to local services. That might be looking at the turnover they generate from the businesses. It cannot be right that Amazon got a tax cut and businesses, like the ones sitting alongside—

Kevin Hollinrake: So a turnover-based tax.

Kate Nicholls: It may well be differential for different parts of the economy. It does not have to be one size fits all. A turnover tax for digital and online businesses for products and services would help, and that could then offset the cost of the £27 billion on those bricks and mortar businesses. We have to have equality.

Q97 **Kevin Hollinrake:** One of our contributors to our inquiry in the other Select Committee suggested an increase in VAT to deal with this. How would you deal with that, if it came alongside a commensurate decrease in business rates?



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Mandy McNeil: We now have a turnover tax for pubs.

Kevin Hollinrake: It is iniquitous. That is the problem.

Paul Crossman: Beer prices in pubs at the moment are pretty prohibitive. We are not that expensive. People think we are, but we are not. We cannot be much more expensive without really haemorrhaging trade, so there needs to be a different solution to that.

Kate Nicholls: That would have a real increase on inflation, which would impact on all consumers, not just our consumers.

Q98 **Kevin Hollinrake:** It would not if it came alongside a commensurate decrease in your business rates.

Kate Nicholls: It would still affect the price at which you are selling to the consumer.

Q99 **Kevin Hollinrake:** Are there any other thoughts in terms of other solutions?

Neil Leitch: We cannot claim back VAT in early years, so it would not affect us.

Q100 **Kevin Hollinrake:** Are there any other solutions? Are there any wonderful new things we should be thinking about to replace business rates?

Paul Crossman: It is interesting that we are on with Neil, because one thing we have in common is that our businesses do provide quite an important social and cultural community function. You have been to my three pubs. They are all embedded in their local communities and there is a lot of evidence to suggest that pubs are really good for community welfare. I would like to see that reflected in the system for pubs like ours. We are so different to a city centre industrial, alcohol-shifting, massive bar. We do a different thing and the system does not sufficiently recognise that.

Q101 **Kevin Hollinrake:** One of the people who gave evidence, who was a valuation consultant, suggested we adopt a trusted ratepayer model, which effectively would mean a partial self-assessment. Many people have talked about the VOA not having the resources. I do not know how you would decide who was most trusted, but if you were a trusted ratepayer you could go in yourself and amend your entry to make sure it was correct, which might improve the speed of a revaluation. What do you think about that idea?

Paul Crossman: How can you amend someone else's assessment of FMT?

Kevin Hollinrake: This does happen in other countries.



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Paul Crossman: I would love a chance to amend my FMT. I would love to do it.

Kate Nicholls: The Treasury proposal for this was that we would go in ourselves and provide the baseline data. The VOA, which does it at moment, takes a snapshot of the industry to see whether that is accurate or not and then it can highlight whether there are ones that really look too low or really look too high. In our sector self-assessment would work more effectively, but when there was the Treasury consultation almost every single other sector of the economy said no, because it would add to increased costs and our sector always needs to employ a rating valuation specialist or surveyor to help us with our initial assessment.

Q102 **Kevin Hollinrake:** Other ratepayers in other sectors were against it.

Kate Nicholls: Yes, because a lot of them have a very simple means of assessment, which is pound per square foot and how big your premises is, and it is very easy to see how big an office block is. Therefore, in order to do any self-assessment or a more complicated system, they felt they would need specialist resources and it would increase their costs of doing it, but it would work in hospitality and it would address some of the concerns about the valuation office's ability to apply FMT correctly or ability to apply a turnover model for hotels and restaurants correctly, where they make mistakes at the moment because of speed and needing to process a large number.

Paul Crossman: May I just add to that? That is a really good point. It relates to transparency of the whole issue. FMT is a dark art. It is practised by a little club, almost, of specialist valuers and it is their territory. You cannot encroach on it. You have to employ them to do that. It is not transparent. It is very elastic. It is really far too more malleable and it needs to be more transparent. We need a simpler, more transparent system.

Mandy McNeil: In filing your company accounts every year for pubs, you could do some sort of self-assessment there. That would be an annual exercise.

Q103 **Mr Clarke:** Neil, I have nurseries on my mind because I have a three-year-old at the moment. I have met some great local nurseries, like Oopsie Daisy's in Loftus, which I went to recently. I heard all about the challenges that they faced in terms of setting up a business. One of the pieces of written evidence that caught my attention was from the National Day Nurseries Association. It highlights that there is a fundamental imbalance now between the private sector providers, who are eligible for paying these business rates, and then the state-run providers, who are not. In terms of what percentage, therefore, of the money that we are putting towards nursery education is being lost, because it is effectively going back into the state and taken away from children's education, do you know roughly what proportion that might represent?



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Neil Leitch: I am afraid I could not give you that figure, but the inequity exists. There is no question about that. I was interested in the comment from one of the colleagues on the earlier panel when they were talking about, "We should adequately fund the sector". Our argument to try to equalise out some of these inequities is, in fact, that we should pay the right rate to the early years sector and we should have an annual review that keeps it in line, so that we do not lurch from whether it happens to be rates this year or whether it happens to minimum wage next year, et cetera.

This is an odd thing to say here, but rate relief is not the panacea of all ills. We still have 39,000 child-minders who will not benefit from this and we will still have the voluntary sector, which gets 80% relief, that will not benefit from this. We are the voluntary sector. We closed 25% of our portfolio last year, so the issue is widespread. There is no denying that rate relief is one of the tools that should be there, particularly so that it does not stifle expansion. You have heard from the whole panel that if it stifles expansion that is contrary to everything that we would want, so that would be the argument for the rate relief for me.

Q104 **Mr Clarke:** Absolutely. With a baby boom underway, we want more places. It is as simple as that. We heard about the good practice in Harrogate and the way that they achieve the 50% reduction in rates for nurseries. I just want to try to square that with what the ICAEW said in its written evidence to us, which was, "Local authorities currently have very limited discretion to offer additional reliefs". How has Harrogate managed a 50% reduction? Is the ICAEW referring to limited discretion because of its financial constraints, or is it that in practice there are obstacles to discretionary relief at this stage?

Neil Leitch: Again, you look at the real-term reduction in terms of funding for local authorities. It is an inherent, in-built restriction.

Q105 **Mr Clarke:** It is not a legal one per se.

Neil Leitch: No, they could do it, but the reality is that there are a million challenges they have from potholes to whatever.

Q106 **Mr Clarke:** Absolutely, it is about priorities. Finally, on pubs, you are never short of hearing from pub owners as a constituency MP. I just want to pick up on what the British Beer and Pub Association said in its evidence to us, which is that there is a declining number of valuation officers with pub expertise. Paul and Mandy, why do you think that is and what can be done to correct it?

Paul Crossman: I would entirely expect the BBPA to offload the blame on to the VOA. That is what I think.

Q107 **Mr Clarke:** You do not accept that.

Paul Crossman: It is very notable that in their submission they did not make any reference to the methodology. They are quite happy with this



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methodology, probably less so now because it is impacting on them as they take pubs back off people like me and run them themselves and then incur that business rates liability. In the past, when it has been hard-pushed licensees on suppressed profits who have had to find all of the business rates, it has not been an issue for them at all. It might be now, but it is interesting that they choose to talk about the lack of expertise in the VOA rather than any systemic issue.

Mandy McNeil: In addition to the systemic issue, they closed down the offices of the people who had the knowledge about what a fantastic pub Paul's pub is. They have centralised it to people who might know how to drink in a pub, but might not know how to run one and might not know that Christo, who is behind us, has a pub that is the oldest pub in England. They may not know all these things.

There is a lack of resource. I looked at 20 constituencies in total and there might have been four or five that had relatively normal responses. Everything else was just a crazy mess. I would like to look at who was looking at those ones, because they might have had somebody who knew what they were doing.

Q108 **Mr Clarke:** As a system-wide point, you would say to try to bring back specialists.

Mandy McNeil: From the industry, not necessarily from RICS. We should have people who really do know the industry, even if it is part of the appeals process.

Chair: Can I thank you all very much indeed for your expertise? I will particularly thank Mandy and Paul for advertising their pubs and St Albans and York so well. There is the suggestion of a field trip there at some point. Can I thank you all very much indeed for your time this afternoon? It is much appreciated.