

Treasury Committee

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

Wednesday 22 May 2019

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Members present: Nicky Morgan (Chair); Rushanara Ali; Mr Steve Baker; Colin Clark; Mr Simon Clarke; Charlie Elphicke; Stewart Hosie; Alison McGovern; Catherine McKinnell; John Mann.

Questions 109 - 249

Witnesses

I: Meryl Halls, Managing Director, Booksellers Association, Chris Harris, Group Property and Development Director, John Lewis, Sebastian James, Chief Executive Office, Boots UK

II: Catherine Gras, Chief Executive Officer, Storengy UK, and Spokesperson, Gas Storage Operators Group of the Energy and Utilities Alliance, Adam Blaskey, Founder, The Clubhouse, Seamus Nevin, Chief Economist, Make UK, Eleanor Griggs, Land Management Adviser, National Farmers Union

Written evidence from witnesses:

– [Booksellers Association](#), [John Lewis](#), [Boots UK](#), [Storengy UK](#), [The Clubhouse](#), [Make UK](#), [National Farmers Union](#)

Examination of Witnesses

Witnesses: Meryl Halls, Chris Harris and Sebastian James.

Q109 **Chair:** Good morning. Thank you very much indeed to our first three panellists for being here this morning for this latest session in our impact of business rates on business. I am going to ask the three of you to introduce yourselves briefly and then we have a series of questions. There is quite a lot going on in the House this morning, so please forgive members if they arrive and leave for various other events. Ms Halls, let's start with you.

Meryl Halls: My name is Meryl Halls. I am Managing Director of the Booksellers Association. We represent retail high street booksellers, about 5,000 outlets. It is a relatively small retail sector but we hope that we punch above our weight delivering value to high streets. We are very delighted to be here. Thank you for inviting us.

Chris Harris: Good morning. My name is Chris Harris. I am the Group Property and Development Director for John Lewis Partnership, responsible for both John Lewis and Waitrose stores. We have about 50 department stores and 350 Waitrose stores in our portfolio. I have been in retail property for the last 30 years, so I am looking forward to this session.

Sebastian James: Thank you very much for inviting me. I am Sebastian James. I am the MD of Boots and we have just under 2,500 stores right across the UK and also a little under 200 stores in Ireland.

Q110 **Chair:** Thank you all very much for being here. I wanted to start with the impact of business rates on operational business models. Perhaps I will start with Mr James and Mr Harris. Obviously, both of you operate from the high street and in retail parks as well. Those different locations result in different business rate valuations from the VOA. How much of a role does the business rate valuation play when you are making investment decisions about where your new shops might be or where you might relocate to? Mr James, perhaps we could start with you.

Sebastian James: It is a consideration. I think like all retailers when we are considering a new shop we will do an analysis of what we think the market is, what we think the competitive situation is and, therefore, how much revenues we think that we will take out of the store. We then can do a fairly accurate analysis of what it will cost us to build that shop and what our rent rates and personnel costs will be. We then do a fairly classic discounted cash flow. Business rates is a factor because it is a factor in the costs. It is quite an important one because it is fixed, so it is what I would call a relatively high-risk cost relative to quite a few other costs that are, of course, more variable, like cost of goods sold and so on.



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Q111 **Chair:** Are there premises or locations that you have decided not to move to because of the level of business rates?

Sebastian James: It is hard to parse out your decision-making process. We will do the maths and then we will say this one works or it does not work. When the discounted cash flow does not work out, is it because the sales are a bit too low or because the costs are too high? It is hard to say which is the chicken and which is the egg.

Q112 **Chair:** Okay. Mr Harris, the same questions to you about the decisions that John Lewis Partnership is taking.

Chris Harris: It is similar to Sebastian in many respects. Whenever you are looking at a new store, you are looking at all the costs that are involved. As Seb says, the rates are a fixed cost and, therefore, it is a cost that you are going to have to bake into the P&L where others may be more flexible. I certainly do not think in the partnership we have made any decision not to open a store because of business rates, but in my previous career I would have experienced exactly that. We will not have acquired stores or, in fact, we will have closed stores. It is a little bit like Seb says, it is difficult to call out it is exactly because of business rates, but given that that is a fixed cost, it does play a very significant role in the decision whether to open or even, indeed, keep a store.

Q113 **Chair:** Ms Halls, I was going to come to you. Don't worry; I will not leave you out. Perhaps you can just talk us through it. Obviously, a number of your members will be smaller; they will not be part of multistore chains. How feasible is it then for people to make decisions either to move or to invest in the first place? How does the cost of business rates impact on their decisions?

Meryl Halls: For smaller companies, bookshops particularly, they have a lot of challenges. They are run as small businesses. They have a lot of fixed costs. We do know that in at least one bookshop in Yorkshire she has two bookshops already and she was planning to open a third. She chose not to open the third bookshop because she found out what the business rates would be. That was quite striking to us that that is such a disincentive to entrepreneurship and creative investment on that high street that now does not have a bookshop. That was one example of how it can constrain.

Q114 **Chair:** Presumably, many of your members have been in their premises for quite some time. Again, how feasible is it to change where they are? Where they are is presumably pretty important in long-term customers, loyal customers and everything else?

Meryl Halls: Yes, and very often they will be in secondary sites, bookshops, because the high street costs are prohibitive. The differential between what out of town premises are paying and high street booksellers, Waterstones, for instance, in Bedford is paying £850 per square foot and Amazon up the road is paying £52.50 per square foot. It is that sort of thing. It does not just affect the independents. They



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diversify in order to stay where they are and they are very creative and innovative in what they do in order to stay in business, because they are not just doing it for commercial reasons but for lots of other more passion project reasons.

Q115 Chair: Mr Harris, Ms Halls has just mentioned this whole issue about online, clicks and mortar as opposed to bricks and mortar. John Lewis Partnership said, "It would be wrong to think about the modern challenges facing UK retailers as 'high street retail v online retail'. The two are complementary". Can you talk us through sales percentages, online, offline, and what the relationship is between the two? Presumably, click and collect is important.

Chris Harris: Sure, yes. Roughly 40% of John Lewis sales come from online. It is much smaller, more like 5%, for Waitrose because it is a newer sector, if you like. I guess what we are describing in our submission there is the fact that the two are intertwined. It is not that we have an online business and a stores business; they are together. All of our distribution for John Lewis, for example, comes from Milton Keynes and that serves the stores, the shops themselves, the branches themselves, online, and our click and collect business as well.

To demonstrate how intertwined it is, a customer will typically come into a store, look at a sofa, look at the colour of the sofa, choose the fabrics and so on, may then go home, measure it up, order it online and then it gets delivered to the store. You end up with this completely omni-channel—as we describe it—process. Then, of course, there is click and collect, and more than half of our online orders are click and collect. You can click and collect—bit of advertising for us—a John Lewis product from a Waitrose store and that is a very convenient way for a customer to shop. You could order something today and collect it tomorrow from Waitrose just around the corner. It is truly an integrated part of our business as opposed to looking at shops and then looking at online.

Q116 Chair: Yes, the Morgan family is very grateful for that at the Loughborough Waitrose, I can tell you. Mr James, talk us through the Boots online click and collect type model relationship as well.

Sebastian James: It is very similar. The press like to have a lot of fun with this and say that online and offline are enemies. We are not enemies. It is very much a complementary activity. We think that the best model for customers is a combination of the two. Boots has a much lower proportion of sales than John Lewis online, partly because if you have a headache now is the time you want the product, so the products that we sell are less susceptible. We are mid-single digit online but growing very quickly. We are growing high double digit at the moment. Seventy per cent of our customers collect in store and anything that looks like a health centre product or a pharmaceutical product we are able then to give some advice and support. We think, like John Lewis, in a very different way. We think that that model of being able to have the convenience of ordering online but also having access to the advice and



help in store is the one that will represent the future and is the one that people want.

Q117 **Chair:** Ms Halls, perhaps you can talk us through for your members the relationship with online. Do many of your members have an online presence? How important is it? Is it growing?

Meryl Halls: The larger members, Waterstones, Foyles, Blackwell's, they will all have a very significant online presence. I agree with the other speakers; it is about being where your customers are. In the independent sector, they are quite creative about it. They will often have a very curated range of titles that are made available online and they do a lot of click and collect. We are working on things like encouraging preorders of big titles.

What they deliver, though, as any high street retailer does, is something where you get extra attention. You get curated service. You get personal recommendations. They are no luddites, booksellers, and e-books, of course, have been hugely significant and the sector has embraced that. It is starting to plateau out but it has certainly been a big challenge. I think that we have embraced it and also carved out a niche where we can be different, where the high street can deliver something much more valuable.

Q118 **Chair:** I think that it has been reported by the Centre for Economics and Business Research that for every £1 spent on books in bricks and mortar bookshops £1.91 is generated for the local economy. Perhaps you can talk us through if you have numbers. I think that all of you are what you might call anchor tenants in the sense of bringing other people in to shop elsewhere. Talk us through the impact of bookshops on high streets.

Meryl Halls: There was an independent economic report done on bookshops in high streets and we were looking at what the economic contribution was of bookshops. They talk about induced and indirect impact of that £1 spent when obviously it circulates in the local economy more effectively. Often in the independent sector they will be buying from local suppliers so they are helping sell local books. Very often bookshops' best sellers will be local titles. That money is going back in obviously to pay business rates to keep the local infrastructure going, but yes, they are buying local produce and keeping local card suppliers perhaps going. It is a multiplier and the bookselling sector also supports the publishing sector. We have about 46,000 jobs in total that are dependent on or influenced by bookselling.

Q119 **Chair:** This is my last question before I hand over to Steve. We have heard evidence from Accessible Retail that in order to compete with online retailers, "traditional retailers now need not only fewer stores but also newer units with modern, larger and well-configured space". This is obviously about retail being accessible for people with all needs, disabilities and everything else. I go back to where I started, which is about looking at new trade premises, I was going to say particularly for



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Boots and John Lewis but I suspect for the larger booksellers as well. In terms of looking at new units or moving, again is that a factor in your property portfolio decisions? Where do business rates figure in that consideration?

Sebastian James: What is definitely true is that the advent of online retail and the convenience that it offers is forcing all of us to raise our game. The future of high street retail is definitely going to be more experiential. We are opening a brand new store in Covent Garden at Long Acre in the old M&S, which we hope will be a fun, experiential, modern Instagramable experience. We think that as we roll out we will need to start thinking about how we modernise and make our experiences more exciting and how we make our stores a place where people go on a Saturday just for fun. In some cases we are not very close to that today, so definitely that is a factor. Of course, all the support and help that we can get to do that, to make these very important local employers successful, is gratefully received.

Q120 **Chair:** Mr Harris, how is the John Lewis property portfolio going to have to change to meet customer demands?

Chris Harris: If I talk about John Lewis first, 50 stores, mainly large department stores, about a third out of town, the remainder in town. Yes, the retail market is changing rapidly with the move to online. What can we do to respond given that we have typically very long leases? A hundred years would be short.

Chair: Gosh.

Chris Harris: We have large buildings with large business rates associated with them, which are fixed. Therefore, there is opportunity to potentially reduce the size of those stores to try to protect some of that, but fundamentally we are trying to, I guess, change with retail. Retail has always been fast-moving dynamic, interesting and exciting. Trying to recreate something on the high street is what many retailers try to do and we are trying to do that in John Lewis.

In terms of experiential, yes, we are looking at putting a lot more products and services into stores that you would have to come into a shop for, whether that is beauty products or having your nails or your hair done, style studios and the like, or whatever it might be so that it, again, complements an online offer.

With the partnership we are also trying to integrate more into the environment itself. We are not there just to have a shop that makes a profit and makes money. Yes, of course, that is part of the ethos and part of what we are trying to do, but it is not the sole reason for being there; being integrated into society in that way and trying to be more involved and more inclusive in that local environment. I think that is similar to what you were just describing.

Q121 **Chair:** Absolutely. Ms Halls, as the demand changes and people want



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more experiences, does that mean stores with more space in?

Meryl Halls: I think that they are using their presence more intelligently and more creatively. Very often for bookshops it would be around events. They would be running events in store, so they are pulling customers in with the experiential offer. They will very often now, if they are expanding their business, maybe put a café in. Then you will talk about a three-transaction customer. They come in for a coffee; they see a book while they are having it; and then they will maybe buy a card and wrapping paper.

It is also very much this thing about Instagramable experiences. You have to go where the people are, and if the people are online then you have to have a presence online. You have to create an identity for your business. Bookshops are very good at doing that. They can reach new communities. Often they will be working with their local schools. They are bringing books to readers in a way that is very creative. It is about introducing all the time the possibility that books are there on their high streets because we know how impoverished a high street is that does not have a bookshop. The American author Neil Gaiman says that a town cannot call itself a town unless it has a bookshop, which I think is true.

Chair: Excellent. That is a good challenge for people to listen to.

Q122 **Mr Baker:** I am genuinely fascinated to see what is going to happen to make a Boots store a great experience. I never thought I would say this but I might go to Covent Garden Boots just to see what you have done.

Sebastian James: I will invite you to the opening.

Q123 **Mr Baker:** Well, no, don't, I didn't expect that. I want to come on to revaluations, partly from the experience we have just had in Birmingham where we met some people to talk about business rates. Could I ask each of you to put this in context? What is a typical business rates bill for, say, a big Waitrose or a Boots that is in a shopping mall? How does it compare to your wages bill in such a store? I wonder if you could just put that in context with some indication.

Chris Harris: For a John Lewis store, typically a rates bill will be somewhere in the region of £1.5 million to £2 million or something of that magnitude. We have extremes. Oxford Street is £10.2 million and has gone up 42% since the last revaluation. Our wage bill I might have to come back to you on.

Q124 **Mr Baker:** I realise it is not your first response. The point is that it is a very material sum.

Chris Harris: It is a very material sum and, as we have said earlier, one of our challenges is that it is a fixed sum. What we have done over the previous decades is appeal everything and try to get reductions and relief and all sorts of things to try to make it a more manageable cost. What has happened more recently is that has become much more challenging. The revised check, challenge, appeal process is cumbersome at the very



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least and makes appealing very difficult. That is for a national retailer. For small local retailers it must be even more difficult.

Q125 **Mr Baker:** Mr James, what might a big Boots in a nice shopping mall pay in business rates?

Sebastian James: We have an enormously varied estate, from the tiniest health centre right up to Manchester's Arndale with 60,000 square feet, so it is a big range. Typically, our rent bill in, say, a big Covent Garden high street, something like that, we would be paying well over a million quid in business rates. In a typical mall environment we would be paying something around half that. Our overall rates bill is £144 million last year, so reasonably material. One of our big stores paying close on a million pounds would be spending roughly the same amount on colleagues.

Q126 **Mr Baker:** About the same amount, so yes, it is very material. Ms Halls, can you give us any kind of indication?

Meryl Halls: Yes, again hugely variable across the sector. To the point about the difficulties, we cited in our submission a bookshop called Brooks in Pinner, which has had a huge increase in its rateable value, which has taken it out of the possibility of rate relief and it will no longer get a third off. Their rates bill would have been £13,000 a year; it is now going to be £26,000 a year, which means they are going to have to take in £1,000 a month more in retail sales in order to cover that increase.

I have another example, which I only found out this week. Blackwell's in Charing Cross Road, which was the iconic bookshop on an iconic bookshop street, left Charing Cross Road some years ago. They chose to leave partly because of the rates increases. They had put in an appeal and after they had closed the shop they then got a rebate of £145,000 but they had already left. Those are very striking examples of how hard it can be. With Brooks, they also were hit with a £6,000 direct debit from the Harrow Council to come out of their bank account with no prospect of not paying that and then the appeal taking place long after. They seem to be hanging on and we hope that they can.

Q127 **Mr Baker:** The Committee staff will find ways to punish me if I do not get on to revaluations. What I take away from what you have said is that it is very material to the survival of the high street.

Meryl Halls: Hugely.

Q128 **Mr Baker:** Mr James, in your written evidence you said that the current rebalancing mechanisms for business rates, such as revaluations or appeals, "are underresourced and subject to a complex set of rules, caps and exemptions that severely hamper their effectiveness". With that in mind, how often ideally do you think that revaluations should occur?

Sebastian James: We think every couple of years is about right.

Q129 **Mr Baker:** Literally two?



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Sebastian James: Yes, two. I think that is what we suggested in our written evidence. The other thing is that the appeals process¹ is complex. I was asking the team how long the average time was to get an appeal done and they said, "We have no data because we have not had one successfully go through from start to finish yet".

Q130 **Mr Baker:** Do you think that it needs a specialist person to run those appeals or do you think that a reasonably well-informed generalist in your organisation could do it?

Sebastian James: In terms of which side?

Mr Baker: If you are dealing with revaluations and if you are dealing with the appeals systems, do you think that you need to employ a business rates specialist or do you think that a more general employee—

Sebastian James: Yes, we will have rates specialists in our property team. Because we have 2,500 shops we can afford to do that. Of course, the vast majority of smaller independents cannot.

Q131 **Mr Baker:** Mr Harris, how complex is it for a large multisite retailer like yourselves to navigate the revaluation system?

Chris Harris: It is extremely difficult. It is similar to Boots. We have not had any appeals go through the revised check, challenge, appeal process yet. We still have 110 appeals outstanding from the 2010 list, so that is nine years and we are still fighting some of those. We have 200 MCC, material change of circumstances, appeals outstanding, yet we have not even been able to get into the process of appealing the 2017 list yet because it takes so long to get yourself set up, registered and organised to be able to go through that process.

All the onus sits on the occupier to provide all the data to the VOA for any appeal. We do not see any sight from the VOA of how they have arrived at their valuation to achieve the RV that has been set. It is, as I said earlier, cumbersome at least. What we tend to find is that it slows everything down. Of course, in many respects we are paying more because we believe we should be having a lower rateable value and, therefore, we are paying more until such time as that appeal is settled.

Interestingly, we think that we should have more frequent valuations. We think that it should be annual and in many respects in going to an annual valuation we will remove this need for continually appealing rateable values because it would be reassessed on an annual basis. We would probably go further than that and say some sort of self-assessment around the rateable value by the occupier would be a more material way of making that change.

Q132 **Mr Baker:** I want to bring in Ms Halls in a moment, but I just want to

¹ The witness has asked to clarify that he is referring to the 2017 Check Challenge and Appeal process in England.



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pick up on that self-assessment and then come to Mr James on another point. Do you think that smaller retailers might struggle with self-assessment? You, of course, are a big player, but less well-resourced, smaller players, would they not struggle with a self-assessment system?

Chris Harris: I don't think any more than they will—in fact less—with the current system for sure. On the check, challenge, appeal, as I said earlier, I am not sure how on earth they can navigate that system. I think that it would become easier for them to do so.

Q133 **Mr Baker:** Mr James, in your evidence you said that revaluations are an arbitrary exercise, which is quite an alarming thing. Could you tell us a bit more about why you consider them to be an arbitrary exercise?

Sebastian James: Yes. There are a couple of examples, which we have put in our evidence; for example, the health centre pharmacy in Frodsham where we suddenly saw our rates go up by a factor of two and a half. These kinds of examples make us feel that the extent to which this is a systematic process is less than is perhaps desirable.

Q134 **Mr Baker:** But arbitrary?

Sebastian James: There is a process. I accept that there is a process, but our view is that that process sometimes yields some curious results. I suppose in some sense that is a definition of arbitrary.

Q135 **Mr Baker:** Okay, fine. Ms Halls, we have covered quite a wide range there. I have deliberately brought you in at the end because you represent such a wide range of booksellers. How would you reflect on the evidence we have heard?

Meryl Halls: I would agree with that. Often it is the lack of transparency and the lack of predictability. For smaller businesses, there also it can be very stressful for them. It is prohibitively costly and they are also preyed on by a whole range of people who come to them incessantly offering to help them to get their rates reduced. They find this quite stressful. The prospect of putting in an appeal and not knowing how it might come out and not knowing what the valuation is until you are right at the end of the process, combined with these sharks circling the small business pretending that they are going to help them and then nothing productive coming from that process, it creates a lot of stress. If you are a sole trader, you have limited people that you can go to. Often they will come to us for help and advice, but it can be hard to give it because the national picture is so variable. It is not the same in Doncaster as it is in Eastbourne, so it is very hard to deliver a solution. It is a huge stress.

Q136 **Mr Baker:** On that point of stress, on Monday in Birmingham one business lady told us that she feared going to an appeal in case the business rates went up as a result of appealing.

Meryl Halls: Yes.

Q137 **Mr Baker:** You would recognise that?



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Meryl Halls: I would absolutely recognise that. I had an e-mail from someone yesterday in Beckenham. She said that she is running her business on fear and uncertainty, which is not typical of booksellers. It is very upsetting to hear your members talking like that when they feel lost and unable to navigate that technical situation.

Q138 **Mr Baker:** To what extent do you think that fear is connected to the arbitrariness that we have heard from Boots?

Meryl Halls: Somewhat. I think that it also feels like a technical legal quagmire that they do not have the qualifications for. They would need a surveyor to help them through that. A trusted source of advice is obviously a great thing, but it is costly and it is another cost on a small business. Typically, independent bookshops have a 3% net margin so they are running very lean businesses and that can be a big hit.

Q139 **Mr Baker:** In terms of the frequency of revaluation, we have had one year, two years, and in your evidence you suggested three years. Could you explain why you alighted on three years?

Meryl Halls: Not very scientific, just more frequent so that you did not get those big delays and the impacts feeding through where you can end up with a decade's worth of backlog impacting. Again, it is the lack of certainty, that when you are running your business you do not necessarily know what is coming down the road.

Q140 **Mr Baker:** Finally from me, how do you think your members, and especially your smaller members, would cope with self-assessment?

Meryl Halls: If it was clear, trusted and easily navigable, they would probably prefer it. To be honest, it is not something that we have discussed in an open forum with them, but I imagine if it was something that looked like it was going to work they would like it.

Q141 **Stewart Hosie:** Mr James, Boots operates from a number of different locations, including being co-located with GPs and medical centres. How does that co-location affect rateable value?

Sebastian James: It is a bit of a mixed bag. Some of them are rated on a normal percentage of rent. Some are rated on catchment and particularly patient catchment within the health centre. It is enormously complex because what does co-located mean? Does it mean in the same building? Does it mean across the car park? Does it mean right across the street? Oddly, we get all of the different rating mechanisms used in all of the different situations, so it is a smorgasbord.

Q142 **Stewart Hosie:** If it is catchment or rate per patient, is it not a bit peculiar that your rates bill will be determined by someone else's footfall?

Sebastian James: Yes, not least because patients tend to have their own preferred pharmacies and the fact that we are co-located, while unquestionably we are the local one, we find that we definitely do not get 100% share of that doctor's prescriptions.



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Q143 **Stewart Hosie:** Okay, so how on earth do you put in an appeal against that when you might not even know how many patients the GP surgery has?

Sebastian James: Yes. When we see the number go from £30,000 to £84,000 that is a pretty good signal to us that we ought to be complaining.

Q144 **Stewart Hosie:** What is the mechanism when it is calculated on that basis?

Sebastian James: We don't know because we have not had a successful claim process.² Our view is that in health centres where we operate there will be these very surprising movements in our rates bill and we manage it as best we can. There is no question that the attractiveness of going into a health centre has decreased dramatically for us, and we have increasingly been coming out of them.

Q145 **Stewart Hosie:** That is also very helpful. We may do something else on that, so that is very useful. We will start with you, Mr James, and move to the right. We have received some written evidence from certain businesses who tell us that the rate of growth in the rates bill has been higher than the rate of growth in business more generally. Is that something that you have found? Is that sectoral? Is it geographical, that kind of story?

Sebastian James: It is a difficult number to calculate because the rate of growth in business overall, unless you want to take GDP as your metric, is hard to measure. I think that business rates growth overall has been faster than GDP, so I guess in that sense they are right. The level of rates growth over the last few years has probably exceeded the growth overall in Boots's revenues because over that period of time there have been changes in the rateable values, which have not kept track with the property costs that we are paying.

Chris Harris: I guess one of the challenges of the business rate system is that it does not take into account any form of affordability. The property is a property and you have to pay. We are a proud payer of our fair share of taxes at John Lewis and we paid close on £340 million in taxes last year; £180 million of that was business rates. To put that into context, our profits last year were £160 million, and that is the first time in our history that our business rate bill has exceeded our profits. We are still a very strong business, we are still very cash rich, and we are still investing £400 million or £500 million worth of capital a year into our business, but it is quite stark that that has now crossed that line.

Q146 **Stewart Hosie:** Sure, and the argument would be fundamentally the same, that the growth in the rates bill would exceed the growth in revenues?

² The witness has asked to clarify that he is referring to the 2017 Check Challenge and Appeal process in England.



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Chris Harris: Yes, certainly in the last year. I would have to look back beyond that, but certainly in the last year in revenues and definitely in profits.

Q147 **Stewart Hosie:** In terms of booksellers, it must be much more mixed because you have the large chains, you have reasonably sized independents and then you have some very small independents who in Scotland, for example, depending on the size of the unit, may not have a rates bill at all.

Meryl Halls: No, that is true.

Q148 **Stewart Hosie:** How does that work in terms of that sector?

Meryl Halls: I agree with the point about the rates not being related to the ability to pay. Bookselling has survived a 25-year onslaught from Amazon, for instance, and the independent sector is starting to recover a bit, but certainly the increase in income turnover for the small independents and for the larger chains has been outstripped. The multiplier continuing to go up is problematic because presumably with a squeezed and challenged high street there are fewer retailers paying the same fixed sum coming into the Treasury for business rates, so that is problematic.

Q149 **Stewart Hosie:** A general question, then: if the rates bill increase is faster than the rate of growth in revenue, while businesses are sustainable just now, when does that become a real problem and is it something that the Government should be paying attention to now before it becomes a real problem?

Sebastian James: I think that it is a real problem now. We do not have to look very far to see some names that have been on the high street for decades, if not hundreds of years, are closing their doors, going into administration, going into CVA, and most of them will cite in one way, shape or form property costs as a key determinant of their decision to do that or their being forced to do that. There are big chains suffering. We, John Lewis, and hopefully many of the booksellers are doing okay, but as you say, if the two lines continue to converge there will inevitably come a day when everybody suffers.

Q150 **Stewart Hosie:** That is a really useful warning at this stage. One very final question, then, in terms of property costs: has there been a change recently in terms of rented properties versus owned properties? In the properties that are rented, has there been a change in the contract? Are they moving from five years to two years? Where are we with rental versus ownership? What is happening with that?

Meryl Halls: In the bookselling sector, the shops tend to be rented. There is a move, partly I guess because of the challenged high street and the closures and the empty properties on high streets, to shorter rental periods, so that is definitely having an impact. It is also affecting the shape of the high street. I agree with my colleagues: the high street



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needs investment and nurturing and regeneration. It does not need a constant onslaught of fixed costs that are disadvantaging bricks and mortar.

Q151 **Stewart Hosie:** In terms of your sector, rental periods would be decreasing?

Meryl Halls: Yes.

Q152 **Stewart Hosie:** In terms of the John Lewis Partnership, I do not know what the business model is, owned versus rented. What is happening there?

Chris Harris: Around about a third of Waitrose stores are owned; the remainder are leased. There are 200 leased stores. In John Lewis, about 10% are owned, the remainder are leased, so the majority of John Lewis stores are leased. It depends on the sector that you are talking about. In department stores, typically leases are long and rents are relatively low. That is because they take a lot of capital investment. I mentioned the £400 million to £500 million number just now. It takes a lot of capital investment in order to sustain a department store. In the food market, leases are typically long as well. When I say long, more like 20 to 25 years.

When you move to the high street and fashion, and I have been in the fashion market for a long time myself previously, they tend to be much shorter. Typically, leases used to be 25 years, then it went to 15 years; probably 10 years ago they went to 10 and now they are at five years or less. There has definitely been a shortening in lease length typically on the high street and there has definitely been a significant fall. You see that reported regularly these days now that there has been a fall in rents on the high street as well as a shortening of lease length.

Sebastian James: We are overwhelmingly leased and we have this huge range of different stores. As Chris says, on the high street lease lengths have been coming down very sharply. The problem for all retailers is that property moves in geological time compared to retail and we have legacy leases that stretch out for 20 or 30 years. Until those come to an end, particularly with a strong covenant like Boots, we cannot really do anything about our property liabilities. Over time, we are seeing particularly the secondary high street costs come down and that, of course, is welcome but it takes a very, very long time and I am not sure that we all have that time.

Chris Harris: I would maybe just say that rents come down, not necessarily property costs come down. As I said just now, it depends on the sector. In a department store our rents are not going to come down because we have 100-year leases. In the food store sector, 25-year leases, our rents are not going to come down. It could be that over generations rents might fall in those sectors, as Seb says, because of the lease length but we are not seeing any material change in our rental.



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Chair: That is very interesting. Thank you very much.

Q153 **Charlie Elphicke:** Mr James, may I start with you? Boots's written evidence states that you are still waiting for appeals from 2010 by the VOA. That is almost a decade ago if my maths serves me right.

Sebastian James: Yes, it is a gentle process.

Q154 **Charlie Elphicke:** How many appeals from 2010 do you still have outstanding?

Sebastian James: I am sorry, I don't know that number but I would be happy to write to you with that.

Q155 **Charlie Elphicke:** Do you also have appeals from the 2017 listing?

Sebastian James: I am not sure that we have lodged any yet on that listing, but we will do.

Q156 **Charlie Elphicke:** Can you give a sense of how long it takes the average appeal to get resolved?

Sebastian James: I can't because we have not had one resolved.³

Q157 **Chair:** Not one?

Sebastian James: No, not one, not yet.

Q158 **Charlie Elphicke:** How many appeals to you currently have outstanding?

Sebastian James: As I say, I will write to you with that data because I don't have the number with me.

Q159 **Chair:** Do you know roughly? Are we talking tens, hundreds?

Sebastian James: I think that it is in the low dozens.

Q160 **Charlie Elphicke:** What happens is you do the appeal; do you tend to negotiate off the back of the appeal and eventually reach resolution and then the appeal gets abandoned? Or is it that you have raised queries or appeals and you are literally waiting for all of them to be resolved?

Sebastian James: My understanding is that it is the latter rather than the former.

Q161 **Charlie Elphicke:** Goodness, that is quite incredible, isn't it?

Sebastian James: I don't know whether Chris has a different experience.

Chris Harris: I can maybe help you. We have 110 appeals outstanding from the 2010 list—so nearly a decade as you rightly say—and, as I said earlier, about 200 material change of circumstances appeals outstanding also. We equally do not have any appeals yet for the 2017 list and that is

³ The witness has asked to clarify that he is referring to the 2017 Check Challenge and Appeal process in England.



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because the check, challenge, appeal process is so cumbersome that it has taken us a year to get registered on the system. Then we can start to go through the process. The process itself is very fixed. For example, we have four months to lodge our information on the site; the VOA has 18 months to respond to that. All the onus and pressure of time limits sit with the occupier.

Q162 **Charlie Elphicke:** Do you have to pay the full amount of business rates that are subject to appeal?

Chris Harris: Yes, you do.

Q163 **Charlie Elphicke:** If the appeal is delayed, it is to your loss and to the benefit of the Valuation Office's valuation?

Chris Harris: That is correct.

Q164 **Charlie Elphicke:** If you are in the Treasury or the Valuation Office, you do not really want the appeal to be heard any time soon, do you?

Chris Harris: I wouldn't have thought so.

Sebastian James: I am sure the Treasury wants a just and fair outcome.

Chair: Do not feel the need to defend the Treasury; they are perfectly capable of doing it themselves.

Q165 **Charlie Elphicke:** I am sure you are right that they would be just and fair and they would not really drag appeals out endlessly. They wouldn't do that now, would they?

Chris Harris: We have looked at the valuations of our department stores, the RVs set by the valuation officer for the 2017 list, back to the 2015 valuation date, and we think they are 30% to 40% over, so it is of that magnitude that we are paying more than we should at this moment in time. We are working our way through this revised check, challenge, appeal process, which is difficult.

Q166 **Charlie Elphicke:** The 2017 list valuation you feel is across the piece 20% to 30% too high?

Chris Harris: In our department stores 30% to 40%.

Q167 **Charlie Elphicke:** They are 30% to 40% too high?

Chris Harris: Yes, correct.

Q168 **Charlie Elphicke:** That puts real pressure on your high street businesses and makes you consider the future of those stores?

Chris Harris: Yes.

Q169 **Charlie Elphicke:** If the Treasury and the VOA and the system as a whole were to adopt a more considered valuation system to get the right valuation first time, then we might not see such problems in the high



street as we see today?

Chris Harris: I do not think you would see as many appeals because if we have more frequent valuations you would have fewer appeals. We have a transitional arrangement, another complicating factor. If your rateable value goes up a lot, it can go up and ours do go up by 40%. If it falls, it can only go down by 4%. We are experiencing those wild swings ourselves. It would remove the requirement for that if you had an annual valuation because it would be set. As described earlier, if we went through some sort of self-assessment process and worked in conjunction with the VOA to set these values as opposed to a "who is going to show their number first" type of approach, much more working together on it, then I think that we would get a better solution much faster.

Q170 **Charlie Elphicke:** You have in your written evidence called for a full fix to the check, challenge, appeal process. What has your experience of the VOA been on that that has caused you to write that in your written evidence, to the extent we have not already covered this?

Chris Harris: You technically have and I suppose the simple answer is that we haven't even got to appeal any yet, let alone had any results. That is the reason for putting that statement in there. We are seeking to engage much more actively now with the VOA. In fact, we have had a meeting for the first time last month, and we are going to continue that process to try to make sure we get the rateable values correct for the next list. I accept that we may be in a fairly privileged position to be able to do that.

Q171 **Charlie Elphicke:** Mr James, we are hearing that John Lewis thinks that it is paying 30% to 40% higher than it should be. Do you have comparable figures for your experience of how much more—

Sebastian James: I don't. The nature of our property means that it is likely that our number will be lower, but we certainly think that we are paying more than we ought to be.

Q172 **Charlie Elphicke:** Ms Halls, we have heard that the system is, "incomprehensible to a general user without specialist advice, thereby entailing further cost". That was from the National Trust. Would your member organisations agree with that summary and assessment?

Meryl Halls: Yes, they would. The best example we have is the bookshop Brooks in Pinner, which had been a bank property. They were summarily given a six-month retrospectively dated revaluation, which put their rateable value up from £42,000 to £52,000 and effectively doubled their rates bill as well as the backdated payment. They were extremely blindsided by that and had to pay the backdated money and have spoken with great passion about how unfit for purpose that process is. Yes, they have suffered enormously from that.

Q173 **Charlie Elphicke:** What changes would you advocate to the system?



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Meryl Halls: Presumably, the Valuation Office needs more investment so that they can get a fit for purpose system, transparency in whatever way they were able to deliver that, and speed. Self-assessment may be one way through that. Certainly, having no inspection made of the property and then summarily having a bill and a revaluation arrive out of a clear blue sky is clearly no way to run an organisation. It could easily have taken that bookshop off that high street after six months of trading only. It is not helping the regeneration of the high street to have this happen.

Q174 **Charlie Elphicke:** Just so I can understand it, this business about you taking a year to register on the system, can you explain this? It just sounds so incredible. I am not sure I entirely understand what this is.

Chris Harris: The amount of information and the way the information needs to be gathered, collected and inputted into the system takes the time. It is that registration that has caused us to take a year to get to that stage. We then need to upload yet further information about floor areas, sizes, comparable evidence, et cetera, and we have to do that within a fixed time period, otherwise we lose the appeal and have to start all over again. Yes, it is complex.

Sebastian James: One of the ways these do get resolved and one of the reasons why we don't see them is that from time to time the process can take so long that the rateable value is reassessed anyway, so it becomes self-correcting in the end.

Q175 **Chair:** But then if you have overpaid, you still want the money back.

Sebastian James: You do and those are the ones that you pick up.

Chris Harris: You do. The other important factor is if you don't appeal it to get it right, the next time round you will get caught by transitional relief, so you need to always get it right.

Meryl Halls: You also want to get it even after you have closed your shop, which is mad.

Chair: Absolutely, yes.

Q176 **Charlie Elphicke:** Even for small businesses, it takes about a year to get everything uploaded and stuff?

Meryl Halls: I do not know that from personal experience, but I know that it is onerous and costly in time and money.

Q177 **Colin Clark:** Mr Harris, an online sales tax has been suggested. We have written evidence of it. John Lewis do not support this. Can you explain why?

Chris Harris: Yes. I was describing earlier that our business is intertwined. We have an online and a bricks and mortar business. It is completely combined and customers do not choose necessarily to go into a shop or online in an explicit way. They just look to shop at John Lewis and, therefore, the way that it is joined up and the fact that you can buy



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online, collect from store, the fact that our distribution distributes to all channels, the fact that if we do not have it in stock you can order it instore and collect it instore or collect it from your home, it is completely omnichannel and combined. Taking one element of our business and saying, "Let's apply a tax over there" seems like not the right way forward.

Q178 Colin Clark: I think all three of you probably support in principle that your members or your stores have adopted being online. I have businesses in my area that have moved from the traditional way of selling at a distance to online. We are trying to find a tax that is equitable as opposed to—you are not against online per se, but you see that the dilemma is not capturing your online businesses while trying to get the ones that are purely online, which have an advantage.

Chris Harris: It depends what you mean by that. We operate from a number of retail premises and warehouse premises where we distribute online. As a retailer, we feel that in many respects retailers are penalised because we are heavy investors in property, we have the actual shops. We are penalised because we are investors in people and we have 83,000 partners in our business and we pay £118 million in national insurance. We are proud of those things but it does weigh very heavily on an organisation like ours.

Q179 Colin Clark: Mr James, if I can come to you. Boots advocate a business rates levy. Is this not simply an additional sales tax?

Sebastian James: Taking a step back, we set out to try to address the fundamental issue as we saw it, which is that while 20 years ago property was a pretty good proxy for the extent to which a retailer could bear the burden of the taxes that they ought to be paying to pay for the infrastructure that they used, today that is no longer true.

We had four guiding principles. The first was that it should be equitable, both online and offline, and our online and so on should all be covered by it. The second was that we should be non-inflationary, and I think that is the question: does this lead to an inflationary issue? We think not because the corresponding decrease in other costs mean that competition will keep the prices where they are today. The third one was that we are realistic that if the proposal was not revenue neutral to the Treasury, we would be unlikely to get very far. The fourth one was that it should be relatively easy to implement. We settled on using the existing VAT collection mechanism because it exists and it is relatively straightforward and businesses understand it, but anything that worked and successfully followed those four principles we would support.

Q180 Colin Clark: Ms Halls, do online book companies have advantages over on-street bookshops? Amazon probably picked on your sector first and you have mentioned how many years ago. Can you spell out the advantages?



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Meryl Halls: You typically have out-of-town warehouse places and very often those will be underwritten by local government grants to help them open those sites, which also delivers an unfair advantage. You have public money going in to support a multinational behemoth. As I said before, the Waterstones in Bedford example is a good one. They pay £850 per square metre for their business rate and the Amazon massive warehouse down the road is paying £52.50 per square metre. Those become systemic advantages. Not only are the online players who are online only taking advantage of the taxation system not being fit for purpose, you also have a retail sector that is already highly taxed. I think retail makes up 5% of GDP and it pays 25% of business rates and 10% of all business taxation.

We are not necessarily over keen on a sales tax because we don't think that retail should be taxed any more. We are more interested in fundamental reform of the whole business taxation system. But I think those systemic advantages to the online players have definitely meant that they can undercut prices that the high street retailers have to charge because they have to pay their fixed costs. Also the investment in their local communities is of a very different order. All of our retailers, and independent booksellers particularly, are embedded in their communities with their schools, reading groups and old folks' homes or whatever. They are giving back to their communities in a completely different order of magnitude.

Q181 **Colin Clark:** I know that you have touched on it but just to give you the opportunity to put it on the record, how do you suggest we achieve an equitable burden of tax?

Meryl Halls: We want to level the playing field, essentially. We are quite keen on the digital services tax that has been floated by the Treasury in terms of it being something that is for services operated by online players. We want to make sure that there are still bookshops and retailers on healthy high streets. What we are calling for is fundamental reform. We are not business rates experts. We would leave it to—

Colin Clark: No, nobody seems to be.

Meryl Halls: We have not come out with a particular recommendation. We would be interested in looking at sales tax or other things suggested by brighter minds.

Q182 **Colin Clark:** I thought you were going to come up with a magic answer that we could all picture. No, unfortunately.

Meryl Halls: No, I wish. I could maybe write to you.

Chris Harris: We equally support a fundamental review of business taxation and not just business rates but business taxation per se, but in the meantime, as we were describing earlier, there needs to be action now. This is the moment. There has been an unprecedented change in the high street very recently and the business rates system is



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cumbersome, slow to react to that and it takes years, if not decades, for it to catch up, if not even longer. We cannot just sit here and wait, so it needs something, which is why we have set out some more short-term changes to the business rates system as we see it today.

Sebastian James: We agree with that.

Meryl Halls: I think the exemptions that we have had, especially for a small business—

Q183 **Chair:** I was going to ask you about reliefs. Can you talk us through? One thing we have not touched on is what, if any, relevant reliefs there are for small businesses, assuming that for many of your members small business rates relief has been very important.

Meryl Halls: Yes, very important. We think about half of the independents have benefited from that, but one of the issues that we are still left with is that bigger members, the Waterstones, Blackwell's, who have bigger stores are still paying a disproportionately high burden, and also it is not the solution. To have constant exemptions and reliefs given on a system just proves that it does not work because you are constantly putting sticking plasters over it. However grateful those businesses are for that relief, I think it is more emblematic that the system is not working than that it is the way to go. If a review of the complete system was not pending, freezing the multiplier would be good, making that relief permanent for small businesses pending a full review of the taxation system would be great, but I think a root and branch review is needed.

Chris Harris: We support the relief given to small business as well, but I would like to point out that under the fiscal lock it means that the larger retailers or larger occupiers pay for that. Again, we get burdened with an additional tax to pay for those things. We are keen to see a removal of that fiscal lock if at all possible and we would also like to see a reduction in the UBR because we see that as being an immediate impact to occupiers, particularly on the high street.

Q184 **Chair:** For Boots and John Lewis Partnership, are there any reliefs that have been relevant or are your stores just of a size that the reliefs are irrelevant?

Chris Harris: All reliefs are relevant, because we typically end up paying more as a result because they go elsewhere. The only relief that we really benefit from is transitional relief and it is not a benefit. That in itself is also a cost because we pay a 40% increase and a 4% decrease.

Sebastian James: We are paying about £1 million more⁴. The imbalance of the transitional relief is about £1 million more. I think we all benefit

⁴ The witness has asked to clarify that if both upwards and downwards transition had not been capped in 2017, it is estimated that Boots UK Ltd would have paid c.£9m less in rates between April 2017 to the end of March 2020



from healthy high streets and we certainly support continued relief for smaller businesses.

Q185 **Chair:** Tesco's written evidence to our inquiry stated that, "The expansion of reliefs has concentrated the rising burden on an ever-shrinking number of ratepayers". Would you agree with that?

Sebastian James: Yes.

Chris Harris: Yes.

Q186 **Chair:** Going back to the evidence that you gave to Charlie about the overpaying by 30% to 40%, talk us through—without wishing to second guess your boards of directors—what that means for business decisions not taken because that is cash flow tied up in paying business rates?

Chris Harris: Just to clarify, the rateable values were 30% to 40%, so there is a whole myriad of things that calculate what is actually payable. Clearly there is a huge appetite for us to get those accurate, which is why we are now engaging with the VOA directly and why we are trying to navigate our way through the check, challenge, appeal process, because that is the only route available to us.

Chair: Thank you all very much indeed for your evidence this morning. It was very helpful, very thought-provoking, and thank you very much for being so honest about the challenges that business rates pose to all of your businesses. We are very grateful.

Examination of Witnesses

Witnesses: Catherine Gras, Eleanor Griggs, Adam Blaskey and Seamus Nevin.

Q187 **Chair:** Thank you very much indeed to our second set of panellists this morning for being here. I think you have all been in the room so you have heard some of the evidence that has been given by the earlier panel. I am going to ask you to introduce yourselves and then we have a series of questions, as you have seen before.

Eleanor Griggs: I am Eleanor Griggs, Land Management Adviser for the National Farmers Union. The NFU represents 55,000 farming businesses and a further 55,000 members who have an interest in the rural community and countryside.

Catherine Gras: My name is Catherine Gras and I am the Managing Director of Storengy and I will be also representing a small group of companies who are all storing gas underground. It is a small business in the UK, only six operators, but with a few billion pounds of investment and it is a much larger business everywhere in Europe.



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Adam Blaskey: Good morning. I am Adam Blaskey. I am from The Clubhouse, which is a business I set up about seven years ago. It is an honour and a privilege to be part of this process as one of the smaller organisations, but I think we can bring a fresh approach. At The Clubhouse we provide innovative, flexible meeting and workspaces created around the needs of fast-growing SMEs and corporates who are looking simply for a much smarter way of working relevant to today's economy. We are a small business but we provide a base for 600 very fast-growing SMEs and some larger blue chips. I think we have a steer on what the wider business community needs. I have read a number of the submissions and we certainly support some of those, such as those submitted by the CBI.

Q188 **Chair:** Thank you very much. We might have a fourth panellist joining us, assuming he is able to make it. He may be caught in security or whatever.

I am very grateful to you all being here because I think the other point is that when we discuss business rates often there is a lot of focus on high streets but there are many other businesses that pay business rates as well. Thank you for being here to share your experiences. Perhaps to start off with you could talk us through—I don't know if it is relevant to any of your businesses. You heard the retailers talking about the balance between online and offline, bricks and mortar and clicks and mortar. Is that relevant in looking at the future way rates could—farmers can't really move online terribly much, can they?

Eleanor Griggs: No, not really and even diversified businesses on farms that do pay rates are largely dependent on their physical presence on land.

Q189 **Chair:** Ms Gras, the same for you?

Catherine Gras: The same for us. There is no real digital business around gas storage but then there is competition between Europe. That could be the same kind of analysis or discussion between bricks and mortar, so it is something important for us.

Q190 **Chair:** I think we have Mr Nevin joining us. We will come back to Make UK in a moment. Mr Blaskey, presumably again it is physical spaces. I am guessing that people might find out about your business online but they want physical space.

Adam Blaskey: The point was just made that it is really about omnichannel retailing. There has been so much written in the press over the last years and decades about the demise of retailers, pubs and so on, all apparently due to people like Amazon and so on, but really it is a bricks and clicks omnichannel. I am not going to repeat what was said earlier, but is an online sales tax the right thing? Lots of businesses have an online presence but it is limited to what they can do online.

Q191 **Chair:** Ms Griggs, agriculture gets various exemptions from business



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rates. Could you briefly take us through the exemptions that are available?

Eleanor Griggs: Agriculture is exempt provided it fits within the definition within the legislation. There are good reasons for that.

Chair: I am not asking you to justify it.

Eleanor Griggs: However, a lot of farms are being encouraged to diversify to support what is a volatile business, so diversification to stabilise farm income. A lot of those are quite small diversifications and quite wide ranging such as equestrian, small business units, caravan storage, all those kinds of things.

Q192 **Chair:** Presumably retail?

Eleanor Griggs: We do get some farm shops and in some of the small business units you will get artisan shops, that kind of thing. They vary. Sometimes it is the farmers themselves who run the diversification and sometimes with the business units, they will be rented out to a tenant who takes on the liability for rates on that.

Q193 **Chair:** Mr Nevin, welcome. Perhaps you would say a little bit about Make UK. I think your evidence said that industry has the largest floor space among businesses, occupying 55% of total space in England and Wales in 2016. Could you talk about the burden of business rates on industrial premises?

Seamus Nevin: Thank you. Make UK is the oldest and largest organisation representing UK manufacturers. We cover 20,000-plus members. Our members range from microbrewers in Shoreditch up to big multinational manufacturers in Sunderland. As a result of the diversity of the types of manufacturing that occur in the UK, our members are affected in diverse ways. Some of them are purely manufacturers and are only affected in the way that a typical manufacturer would be. Some also have a retail arm and, therefore, are hit by both sides of this coin.

The biggest effect that business rates has on our members is to do with basic land valuation tax and the fact that manufacturers occupy 55% of built land space in the UK. They pay the lion's share of business rates. As retail shifts to online, the burden is increasingly shifting back towards the manufacturing arm of business as they are picking up the lost revenue that HMRC is losing because of the decline in revenue from the retail sector. The effect of this in its most acute form is on business investment. Our members regularly complain that business rates is an active disincentive to invest in new machinery and in innovation and is, therefore, stifling business growth and holding our firms back.

Q194 **Chair:** When you said lion's share there, do you have a percentage of how much you estimate Make UK members would be paying in business rates, the overall percentage paid?



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Seamus Nevin: I do not have the percentage to hand. I can provide that.

Q195 **Chair:** If you could write to us, that would be great. Thanks very much. You said that 42% of your members would invest in plant and machinery if it was not included in the business rate calculation. Can you talk us through the relationship between plant and machinery investment and business rates and how it is taken into account?

Seamus Nevin: In its simplest form, our members will pay a certain amount of business rates based on the floor space that they have for their factories but on top of that if they are investing in new machinery they pay the value of that machinery in business rates as well. There are reliefs, particularly in Scotland. There is a 12-month holiday for businesses that invest in new machinery where they do not pay business rates for that investment but in England and Wales that does not apply. What that means in practice is that our firms are essentially paying a tax on the physical building that they own and the land that their business is based on, but also if they need to invest in new machinery to develop a new product or because the machinery is out of date, that is an extra cost in tax terms.

The other side of this is it is not just machinery and plant itself. It can also be things like high-speed broadband or if you want solar panels to make your energy more environmentally friendly, you build in extra costs that will be subject to business rates taxation and again you are blocked or impeded from investing in these things, which I think are universally good not only for the business but for the wider economy.

Q196 **Chair:** Ms Gras, based on the written evidence you gave us, you said a number of gas storage operators have taken the decision to “totally or partially mothball” sites which are some of “the most modern in Europe, using the most up to date technology”. Can you talk us through why that decision has been taken?

Catherine Gras: As I said, it is a very small sector in the UK but much larger in Europe. We are clearly dealing with gas and energy, and gas and energy can freely flow everywhere in Europe, which is fine for the end users but it means that we are exposed to companies being able to propose the same product at a lower cost. Clearly because business rates are so high in our costs that is making us run at a disadvantage. This is just the basic thing in this market.

If I take our example, in 2015 we had the opportunity to make an expansion to the site, which would have added another 50% to the site and to our building. That was just at the time when we had a new valuation with 400% added to the previous period in business rates, so obviously we were not in a position to go on with that because just before that the market completely collapsed. We had a significant decrease in value seen from a market perspective, which is the one that is important, and at the same time from the VOA perspective a multiplier of four or five



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on the rateable value. Clearly we did not take this investment decision, and that could have been something like £100 million that we would have invested in Cheshire. I think this is showing how it can directly impact an investment decision.

Q197 **Chair:** If you know, how does that compare with how companies are taxed in Europe in that way?

Catherine Gras: I am part of a group that is active everywhere in Europe and I am currently in charge of Germany, so I know quite well how it happens there. There are property taxes similarly on industrial assets but they are very minimal. We are not talking about millions per year paid for that. We are mostly talking about 10,000 or something like that. When it is so minimal it is not a problem. You can really neglect it. It is part of your costs. When it is up to 50% of your revenue or something like that, it is clearly not the same.

Q198 **Chair:** In Germany, how are the rates calculated? Is it on floor space, turnover, sales?

Catherine Gras: It is mostly on the land itself.

Q199 **Chair:** The value of the land?

Catherine Gras: Yes, but because the percentage that you will be paying in tax is so low, the question is not how you calculate it. The question is how much you are paying at the end.

Q200 **Chair:** It is the amount that obviously causes difficulty for businesses.

Catherine Gras: If it could be calculated in the same way here but if it was capped or if it was working differently, it would not be a problem. We are all here because it is a massive amount of cost.

Q201 **Chair:** It is a problem, yes. Mr Blaskey, I am assuming you are here because business rates are a problem. You said earlier on it was a privilege to be here. I am not sure most people would say that about appearing in front of the Treasury Select Committee, but we are very grateful and I think this is something that we can shine a light on. Can you talk about how business rates impact your company, your business? Presumably you pass them on to tenants and people booking in spaces.

Adam Blaskey: I think what is important to recognise is that I am part of a sector that has only started to emerge over the last 10 years. It is a relatively new sector and that is the flexible workspace sector. We are in a new paradigm. It is an age of disruption that lots of people talk about. It is an industrial revolution that potentially our children's children will be learning about in time to come. What is clear is that the current rates regime has not kept up with the way the world is turning. I think that now we have an amazing opportunity to address that because the system that we are all struggling with has been around for 30 years and is no longer up to date. In particular for my industry, the main problem we have is that in running a flexible space we have four locations in London



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at the moment where we give home to about 600 companies. If we were an old-style serviced office where it is all carved up into little buildings, there would be lots of different leases and licences and all of those occupiers would be able to apply for small business rates relief if that was the case.

Q202 **Chair:** In their own names, basically?

Adam Blaskey: In their own names, because the rates liability falls on the tenants or the licensees of those spaces. But the world of work has evolved. People want to work in a much more open plan, flexible way and the disadvantage that we are at, and many others, is that we have to pay one rates bill on the whole.

Q203 **Chair:** Presumably in passing on costs to tenants, business rates are a factor in what you charge?

Adam Blaskey: It directly affects what we have to charge our members to be in business. As a small business, we occupy only 40,000 square feet in London, but our rates bill is in excess of £1.1 million a year. Coincidentally, with the incentive that landlords give me to open new spaces, it costs me about £1 million a year to open a space. We can support 200 scaling-up companies within each location. If you do the maths over five years, £5 million is what I am forced to pay in rates but £5 million could open five more Clubhouses and support 1,000 growing businesses. We commend a lot of things the Government are doing to support businesses, particularly the British Business Bank, but real growth is being held back phenomenally. In the short term, what we want to do is level the playing field and get a relief that would be available to us.

Q204 **Chair:** I do not know about the kind of businesses that are in the premises. Is the point about plant and machinery relevant at all or do they tend to be much more businesses that do not have lots of machinery that comes with them?

Adam Blaskey: They do not bring a lot of machinery to us but we have to invest in that upfront. We have to take a Cat A space and we spend a lot of money doing it. In giving people the best places to meet and work in London, typically they are in the prime areas around transport and infrastructure. By virtue of that, you are paying high rents and obviously rates are directly linked to the rents you pay.

Q205 **Chair:** Is business rates a factor in where you choose your future locations?

Adam Blaskey: Definitely, because it is that large, immovable fixed cost that we know about. Most businesses these days are early stage, loss-making businesses. We are the same as a group, because we have to invest heavily upfront. Each one of our locations might take the best part of 18 to 24 months before we have even started fitting out the place and you have to pay rates from day one.



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Q206 **Stewart Hosie:** Mr Nevin, the written submission from Make UK suggests that the UK is a less attractive investment opportunity due to the business rates system. That is quite blunt. Could you expand on that a little and explain why?

Seamus Nevin: The UK has the highest property-based business taxes in the G7. The trend in business rates has been towards increasing the amount of revenue that is received via business rates. By comparison with other countries, they are typically heading in the opposite direction. The US and Japan in particular have significantly reduced theirs. The French Government removed plant and machinery from their equivalent of business rates because they recognised the effect that it was having on business investment. When we surveyed our members on this particular question, a whopping 88% of them said that they would consider moving location in order to pay lower business rates.

Q207 **Stewart Hosie:** But right now the levels of property tax in France are broadly similar to the UK. The corporation tax regime here is lower. While I do understand the convenience of not having to pay rates on plant and machinery, I still do not quite understand where the disincentive lies, given that overall the costs are no higher here than, for example, in France.

Seamus Nevin: No, they are. We have the highest in the G7. Our taxes are typically higher than in France.

Q208 **Stewart Hosie:** I presume from what you have said, you would support taking things like plant and machinery out of the rateable value?

Seamus Nevin: Yes.

Q209 **Stewart Hosie:** I also suspect that you would not suggest that IT equipment, which is not included, should be included in the way that some plant and machinery is now?

Seamus Nevin: I would suggest that we would take plant and machinery out of business rates as part of a wider review of business taxation generally. Whether you decide to exclude particular types of technology, for example IT equipment, as you say—or high-speed broadband, which is obviously another major concern for businesses not just in the manufacturing sector but across the board—is open to discussion. We would probably argue that anything that stifles a business from innovating and increasing its trade internationally, and developing new products and potentially expanding its business so that it can employ more people, is a negative and something that we would argue against.

If you look at the history of taxation generally, and particularly in the UK, there is an awful lot of evidence that lowering taxes on businesses can increase growth and, therefore, increase the amount of revenue that HMRC receives. While it might on one side appear that lowering taxes could be detrimental to the Exchequer, the stark evidence on this suggests that it would actually be a benefit.



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Q210 Stewart Hosie: Thank you. Catherine and Eleanor, both the NFU and the Energy and Utilities Alliance have raised concerns about the current business rate system acting as a deterrent to moving to greener technologies, including those in relation to decarbonisation. Can you explain why that is the case? What is the disincentive to moving to those technologies?

Eleanor Griggs: For on farm, there is quite a lot of scope to host greener technologies, whether it be wind turbines, or more typically solar PV. A lot of our farmers use that to generate energy for their farming businesses, but there is sometimes an excess of energy generated, which they then put back into the grid.

Q211 Stewart Hosie: Hold on a minute; if the UK Government do not allow or have reduced the amount of money that someone can get having generated excess electricity, if they have changed the PV regime so there is less subsidy available at the beginning, that has nothing to do with business rates. Surely that is other Government policy we should be going after where they have a problem.

Eleanor Griggs: They have. The difficulty is that it is a rateable activity, and that then deters people from investing in that and making their businesses more efficient.

Catherine Gras: The main problem that we have is that the way business rates are calculated. Especially when using the contractor's basis, it is completely disconnected from what the investment is able to produce in terms of cash flows. You mentioned already something similar, which is if a company decides to invest in new solar panels, or to try to change its impacts on the environment, or to reduce its carbon footprint, or to invest into a new system that will increase productivity, all of this is not looked at in terms of addition to value, but the VOA will look at it just very simply, "Okay, how much do you pay to get it? Then I will charge you on that". The way companies are operating and taking their decisions is to see, "How much does it bring me if I invest in this? How much additional revenue or savings will it bring to me?"

If you go this route and want to reduce your impacts on the environment, there are new businesses that may not be very profitable at the beginning, if in addition to that there is a decision where you have to invest money and the Government are coming and charging you while you are not making money, there is a problem. This is where it is in fact impacting on any decision; that can be a new investment decision, it could be a new greenfield project, but as well, any decision where a company would want to invest to increase its productivity. This is where it is all wrong. Certainly, plant and machinery is the worst system.

Q212 Stewart Hosie: Would you then support the system in Scotland, the business growth accelerator model, where after investment is made there is no increase in the business rates for at least 12 months?



Catherine Gras: I am not very familiar with the Scottish system. I have been operating in England, and only in England. However, when you are talking about investments that you expect the payback to be over about 25 years or 30 years, okay, 12 months is better than nothing, but it does not change your investment decision.

Q213 **Stewart Hosie:** That is helpful. Mr Blaskey, Enterprise Nation wrote to us and told us that not only does the current system adversely affect investment, but it also encourages some landlords to keep retail space vacant due to targeted reliefs. Does that ring true in your experience?

Adam Blaskey: It is very difficult in our industry to keep space empty to benefit from empty rate relief. I know that happens in other sectors, particularly large warehouses and so on, so I cannot really comment. What I would say is I completely agree with what we have just heard. Whatever sector you are in, in our instances rates are holding us back from investing in new centres to support other businesses. There is no real surprise that we have this productivity crisis that we keep reading about and that GDP is not growing, because business rates are one clear thing that is holding every sector back from trying to be more productive and investing in the future.

Q214 **Chair:** That is very thought-provoking. As Stewart has gone on to reliefs—we have just touched there on empty property relief—perhaps you could just talk us through why it does not work for your business, and if there are any other reliefs that are particularly relevant. I assume you agree with the statement made in the earlier panel that the fact you have to have so many reliefs is an indication that the system overall does not work. Mr Blaskey, what reliefs are relevant to your business?

Adam Blaskey: Unfortunately in our business we do not have any reliefs. We would certainly welcome something in the short term. We recognise this is something that is not going to change overnight. We wholeheartedly support a thorough restructure of business rates. Maybe look at a simple consolidated tax on business. In the short term, we do not have any reliefs, and that is what we would very much appreciate, to level the playing field, in a similar vein to retailers, or what you just mentioned in Scotland.

We spend a lot of money fitting out a space, but before we have welcomed one of our members through the door, we still have to pay business rates. At least some breathing space would be good. When I take a new space, a landlord would give me up to 24-months' rent free. However, the local authority charges the full rates from day one. I am not quite sure how that can be just. Equally, if I was a big, serviced office—and bear in mind that the world of work has moved on—I would potentially be able to benefit from empty property rates relief, and when those spaces have filled with small business I would apply for small business rates relief. We incur 100% of the burden from day one, so relief is certainly something we are after in the short term.



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Q215 **Chair:** That is very interesting. Miss Gras, and also perhaps the others, I think you have mentioned in your evidence about transitional relief not really working either.

Catherine Gras: No. Back to the relief, for us there is clearly no relief; there is nothing. We are not in the right activity sector; we are not small enough. There are many reliefs, and I agree with the previous panel, it shows that it does not work, and it does not work for most companies. For us the main problem, in addition to the way the VOA is looking at value, is the transitional relief. We have seen a significant increase just before we went operational. Since the beginning, since we have been operational, roughly around 2015, we have seen a massive increase in it. We have never benefited from the transitional relief approach, but then when we went into discussion with the VOA for this valuation period, we obtained a roughly 60% discount on the previous value. Discount is not the right word.

Q216 **Chair:** Because it takes so long to transition to the new system?

Catherine Gras: Yes. We got a 60% reduction in the rateable value, but we will never see the benefit of it in this valuation period. We are seeing something like -3%. We are still paying more than double what we should be paying because of the transitional relief downward.

Q217 **Chair:** Assuming the system worked perfectly, how long would it take you to get to the new level?

Catherine Gras: Something like 18 years. In 18 years, if nothing changes, which is of course not the reality, we will finally be back to the right level of valuation.

Q218 **Chair:** Of course, we know there will be other revaluations. Okay. Miss Griggs, how about NFU members benefiting from reliefs? We have talked about agriculture generally.

Eleanor Griggs: Yes. Small business rates relief for us is key. It is extremely important. Over 65% of farms have diversified activities, and they have an average income of about £18,500. The majority of them do fall into small-business rate-relief thresholds. Yes, definitely, and without it I imagine there would not be quite so many diversified activities. No.

Q219 **Chair:** Mr Nevin, how about Make UK members? When they get reliefs, which ones are important?

Seamus Nevin: It really depends on the business. The wider point here is that of the £30 billion that is raised here annually with business rates, about half of that is available in tax relief. However, part of the problem is that many of our firms are unaware of the relief to which they are entitled, or do not have the capacity or expertise to apply successfully for those reliefs. We would suggest that it really should be automatically applied by the Treasury, so Making Tax Digital could be enhanced to make that a viable option. The other aspect of this is that it is not just the tax itself, it is also the administrative burden in calculating what your



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rate should be and, of course, the punitive fees that you have to pay if you get those wrong. It is part of a wider system as well.

Q220 Alison McGovern: I have a few questions on valuation. Mr Nevin, we will start with you, if that is okay. Make UK said that the 2017 valuation had a negative impact for UK manufacturing. Can you talk us through that?

Seamus Nevin: Yes. We know that about half of our firms say that business rates are precluding them from investing in new technology. We are going through the beginnings of the fourth industrial revolution of the manufacturing sector. Our sector is typically at the cutting edge of technological innovation, but in many cases UK firms are being left behind by the international competitors because of the burden that taxes and regulations are placing on them and the disincentive that provides for them to invest in these sorts of innovations. Some 88% of our members report that they would be willing to relocate if they were to pay lower business rates, so this is having an outsized effect on their ability to expand and grow, at a time when there is so much disruption in the sector right now that really, if you are not moving forward, you are being left behind.

Q221 Alison McGovern: That is helpful. Miss Griggs, the NFU told us that there is a lack of transparency from the VOA over how decisions about setting rates are made. I would say from my own experience as a constituency Member of Parliament that is probably true, but do you want to give us your thoughts on that particular problem?

Eleanor Griggs: Yes. It is feedback from our members generally that I am relying on for this, but they will come to me to say, "My rates bill has gone up by X amount". I say, "Go to the VOA and try to get a breakdown of how they have arrived at that valuation". It is just like banging their heads against a brick wall sometimes, they say. They cannot get hold of it. In addition, depending on the valuation method that has been applied you cannot then go online and look at other comparable properties either to see what the going rate is and how they view it.

Q222 Alison McGovern: Yes. I have heard anecdotally other people say that the VOA is understaffed.

Eleanor Griggs: Yes.

Alison McGovern: You would agree with that?

Eleanor Griggs: Yes. We recently ran a series of drop-in sessions for our members on business rates. I sat with a very experienced business rates consultant throughout them all, and there is a lot of quite junior staff being used.

Q223 Alison McGovern: Taking poor quality decisions because they are inexperienced, or overworked?

Eleanor Griggs: Yes, yes, yes.



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Q224 **Alison McGovern:** Miss Gras, the Energy and Utilities Alliance and Storengy have reported that the valuation methods used by the VOA are at odds with the valuation methods used by industrial and financial investors. Can you talk us through that problem?

Catherine Gras: Sure. In our sector the valuation method that is mostly used by the VOA is the contractor's basis, which is looking at the amount of money you would put on the table if you were to buy a new property, which is fine if you see investment. If you are in a sector where everyone is entering the market and willing to make investment decisions, that could be a good method to look at. However, when you are looking at a sector where people are closing down their assets, not building them, or just waiting for better times, it does not work anymore. We have a method that is not looking at the real circumstances. It is not looking at how much revenue you can make out of an investment, it is just looking at what if you were buying a new one. If no one is willing to buy a new one today, why would I use this method?

Q225 **Alison McGovern:** Essentially, it is not mark-to-market; it is a theoretical market where there is a buying appetite?

Catherine Gras: Yes. We have tried to change, and have had long discussions with the VOA on changing the method to go to receipt and expenditure, which is a bit better. One of our colleagues who was part of the EUA, another storage operator, won an appeal in the previous revaluation period to go from contractor's basis to receipt and expenditures.

Q226 **Alison McGovern:** Talk us through the receipt and expenditures method. What is the method you would advise?

Catherine Gras: The receipt and expenditures method is very complicated again, but it is something that looks a little bit better. It looks at the amount of revenue you can generate, and what is left after you have your revenues and your costs, and then you look at what remains for the shareholders. It is a bit better, because this way we are usually looking at the business.

Q227 **Alison McGovern:** Even under the current business rates system there are technical changes that could be made to make the valuations more realistic, and that would help?

Catherine Gras: It could be better, but it means changing completely the methods and making it understandable for people, which is not the case at the moment, to say the least.

Q228 **Alison McGovern:** That is really helpful. I have one final question for everybody on the panel. Mr Blaskey talked before about the potential for a simple, consolidated tax on business. At the moment business rates in theory are supposed to support local government. Unlike corporation tax, business rates are supposed to provide a connection between business and the local area, and certainly local government. Whatever we think of



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the current system and whether or not that does provide a link, if we are thinking about future policy, there is a tension between having that simple, consolidated tax on business and maintaining the democratic link between business and the place in the country that they are. Would each of you briefly comment, if you wish to, on whether or not you think it is realistic in the current circumstances to maintain a connection between business and local government through taxation? With things like online businesses, where are they based?

Adam Blaskey: That is clearly one of the biggest hurdles in this debate. I do not think it is one that is completely insurmountable, because at the end of the day, business rates are levied centrally and it is redistributed. It is just looking at how that tax is redistributed, whether it is business rates or another form of tax that is redistributed locally. That is obviously central to any argument. We agree with other submissions and ones that I have seen from the CBI and the Association of Accounting Technicians that the whole tax regime is completely broken. It is unfair, it does not respond to changes in the economy, and we have heard it holds back productivity and investment.

We have also seen that our recurrent taxes on property are the highest in Europe. Yes, we are close to France, but if you look across Europe, we are at something like 9% and the average in Europe is about 3%. If you look across the OECD, our property taxes are higher than everything else. We have a once-in-a-lifetime opportunity to readjust this. We have talked about online, offline, omni-channel retailing. I do not think any of us have a problem with paying tax when we make money. There is no problem at all in that. It is the regressive form of tax that we need to address.

Q229 **Alison McGovern:** Does anybody else have a comment on whether there needs to be a local link?

Catherine Gras: Yes. I opened discussions with my local authorities some years ago in Cheshire. It is a small council in Cheshire, and I am paying £5 million a year at the moment. If there was no transitional relief I would probably pay £1 million or £2 million, so that would mean a significant decrease in their budget. If you are in front of a local authority and you say to them, "Normally I should get a relief of £3 million, and that would make it £3 million less for you, what can you do for me?", they really like what we do, but they cannot do anything. They do not have any money. It is nice to have this link, but honestly, it is too much burden on them.

Alison McGovern: It is not real.

Catherine Gras: They have no means to change anything. They can only hope that I will not go for an appeal and get anything. That is the reality of it.

Adam Blaskey: May I add one more thing? I do not think any of us really object to paying council tax, for example, because our bins get



emptied, our parks are looked after, and the streets are cleaned; it is the local area that we live in. When it comes to paying business tax locally, we do not see any of those benefits. We have to pay another company to empty our bins. We see no real benefit. If you look at the economic impact and the gross value added, which certainly our sector brings to the local area, the amount of footfall that then goes into local retailers, bars, shops, and everything else, we are driving it, and we should be rewarded for doing so.

Q230 Alison McGovern: It is the same point, really, is it not? In theory there is a local link, but actually the powers that councils have, given much of their statutory activity is now dominating what they can do because of resources, it is not a real link. They cannot really reward you. Any further comments?

Eleanor Griggs: There does have to be a degree of keeping that relationship with the locality. One of the problems for us is that with rural populations, what they do manage to collect in business rates, if you do centralise it all, you run the risk of it being frittered away and the local rural places not seeing it. Yes.

Seamus Nevin: Yes. We would obviously recognise that there does need to be a local link. Local businesses rely on local services, and local government authorities need to have sufficient funds to provide those services. The bigger challenge here is that the nature of business has shifted massively over the last 10 years, and we have a tax system on businesses that is increasingly out of date and is going to become increasingly so as we go forward as well. Taking onboard things like the Taylor Review as well, we need to have a much wider review of business taxation on the whole and assess where it is appropriate to tax businesses, given that the nature of employment, the nature of manufacturing, and the nature of retail itself has completely changed, and it does not look like it is going to go backwards.

Q231 Charlie Elphicke: The NFU advocates a move to annual revaluations. Given the data requirement that this would require based on the current system, would your members be happy to provide this data at the frequency an annual valuation would require?

Eleanor Griggs: A lot of smaller businesses do not necessarily change, so that in itself would not be too much of a burden, provided it is just a case, really, of resubmitting what you did the previous year. We would not necessarily support self-assessment, because that can be burdensome on a smaller business having to make sure you get that right, so we do recognise the extra burden that that would then put on the Valuation Office itself at the moment.

Q232 Charlie Elphicke: Catherine, the submissions from the energy sector also advocate a move towards shorter revaluation periods, and ask for early statement of intent. What would that entail?



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Catherine Gras: For us, we really advocate for yearly assessment, because we think it is also the way to get rid of the transitional relief system. We also need to have a shorter time period between the reference date and the date you pay. You need to make it very agile and flexible to reflect market changes. We think self-assessment for medium to large companies is something that is feasible, honestly. We do not need to have the VOA look at that, because this is something we already do for corporate tax. There could be a system that works. Of course, maybe the rules of valuation should be clearer, and that will make it better for everyone. But we could have a system where companies are making self-assessment on yearly valuation with no time lag, and then it will be really fair.

Q233 **Charlie Elphicke:** Across the panel, how much notice would industry need to be prepared to respond to shorter revaluation periods?

Catherine Gras: On our side, we are able to do it immediately. It takes so much time already to discuss with the VOA. We will soon be preparing for the next valuation period, so it could change in the next valuation period. Of course, we are a bit larger than other small businesses.

Eleanor Griggs: I agree with that. If they already have the information that has been submitted, that the VOA have, it could be fairly immediate. Yes.

Adam Blaskey: My submission is noticeably thin on the ground in terms of revaluation periods and the appeals process, because it has been the subject of far, far too much debate. I am advocating a complete restructure of the whole regime. I think there has been far too much talk about revaluation periods, about the appeals process, and whether it is a property tax or a land tax, and much more of the debate should be given up to looking at alternatives, whether it is a simple, consolidated tax, or others. My silver bullet would be to say that if business rates raise about £30 billion a year, if we were to just look at corporation tax and VAT as a starting point, while you can commend the Government in trying to reduce corporation tax, as I mentioned, I do not think many people mind paying tax when they are profitable. I would suggest freezing the 2% reduction. Looking at VAT, we remember when VAT was down at 17%; it is back up to 20%. Corporation tax and VAT, if I am correct, add up to about £194 billion a year. If you took the average rate of 20%, put that up 10% to 22%, and you got £20 billion in tax more, you have solved the problem to a degree.

Q234 **Charlie Elphicke:** Have you? People like Amazon and the like do not pay much in the way of corporation tax because they park it all in tax havens. Are you not just going to accelerate the decline of the high street if you take that sort of mechanism?

Adam Blaskey: Corporation tax, yes, of course, is one thing, and a lot of companies can move profits around. However, in terms of a revenue tax,



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that is on VAT. They should be charging VAT if they are selling out of the UK.

Q235 **Charlie Elphicke:** You are basically saying: axe business rates and simply have VAT at the rate of 35%, or something like that?

Adam Blaskey: More or less. I think we should be taxed on what we produce from a location, not from the property itself. Why are we taxed on the property or the land that we occupy and not on what we produce from within it. Yes, a value-added tax that is easily addressable. Every company that is in the UK has to submit their VAT returns.

Q236 **Charlie Elphicke:** Mr Nevin, do you think that we should shuffle the deck chairs with annual revaluations, or do you think we should just turn to avoid the iceberg in the way that Adam is trying to tempt us?

Seamus Nevin: I am not sure we would entirely agree with the particular approach that Adam is suggesting, but our preference would be for a wider review, given the points I made earlier. If you are, however, sticking to the existing system, we would be in favour of a shift towards annual reviews and shortening the review period. If you take the example of the 2008 revaluation, it did not come into effect until 2010. The revaluation took place before the financial crisis, but businesses started paying it right at the peak of the crisis. The revaluation that has taken place this year will not kick in until after we leave the European Union, and we could be facing a very different trading environment for our businesses then too. We would suggest that certainly an annual review would probably be more procyclical in that sense, and be easier for businesses to adapt to.

Q237 **Charlie Elphicke:** The NFU makes the point that there is a two-year lag between the antecedent valuation date and the introduction of the rate. What is the justification for that lag?

Eleanor Griggs: I do not know. I do not know what the justification is. The NFU just believes that the valuation should be current, and at the moment it is two years behind.

Q238 **Charlie Elphicke:** What changes are necessary to bring that gap down?

Eleanor Griggs: To essentially make the valuation date the valuation date, and not a date two years beforehand.

Catherine Gras: And to make it simple. Because what happens during the two years is a one-year discussion with the VOA. There is one year we do not really know, then suddenly they come and discuss it with companies, and then it takes a year to agree on things. We can make it simple, and we can say it is only one year or six months that it will be like this.

Q239 **Charlie Elphicke:** Adam, if we are not going to go for your radical suggestions, and instead we are just going to shuffle the deck chairs and get the band to strike up, what exactly would you suggest we do to



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improve—not fix, because you do not think it can be—the current system?

Adam Blaskey: I honestly do not believe it. There are so many inherent problems within it and there is such a backlog of appeals that it is plastering over more cracks. At a minimum we have to level the playing field, but again, I do not see how that is possible, because every sector has its own needs. There is a complete disparity.

There is also a disparity between how local authorities hand out those reliefs, because their own budgets are under pressure, so they are going to be very reluctant to do so. The decision has to be made centrally. It is a real problem, especially when those reliefs are not handed out. I would love to know the number of court summonses that local authorities around the country have sent out to people who have not been able to afford their business rates. You hear about big, high street retailers closing stores, but among the SMEs I think the problem is much more marked than we may realise.

Q240 **Rushanara Ali:** It does sound like a dog's breakfast, really, especially with the pressures on local government finance, as you pointed out. What I want to do is just focus on future changes. You have touched on quite a few, and you have in your submissions as well. Miss Griggs, the main alternative options for the current business rate system include, obviously, sales tax, a profit tax, turnover tax and land tax. None of those is popular with the NFU. Can you talk through some of the suggestions the NFU is making and the merits of those?

Eleanor Griggs: No, we did not agree particularly or see how any of the suggested alternatives could really work. A property-based tax that has that link to the local element is something that we still do agree with, and I think that is important. Really, if there is an alternative system in place, if we are looking at alternatives, it needs to be based on affordability for all business sectors.

Q241 **Rushanara Ali:** Basically it is better to focus around a set of principles to start off with rather than the specific proposals, because presumably that would just run the risk of adding more complexity to the system, which might work for some but not others. Is that something that others share; that it is affordability? What else? What are the other principles that you want to see underpinning a new system, whether it is radically overhauling the system or looking at how things are reformed?

Catherine Gras: Affordability and fairness are clearly things that need to be in it. Predictability as well. We need to understand how it is calculated and how it will evolve in the future. When we are all exposed to doubling, or multiplied by three or four in two years' time, it is not normal. It is not something that we can bear. Also, it needs to reflect market conditions. We cannot have tax that remains as it is when we are struggling to just create cash. That is what we expect from a tax system.

Q242 **Rushanara Ali:** Yes. Picking up on the points about investment, you



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need long-term predictability as opposed to a year or two?

Catherine Gras: Yes. If everything is changing just after you have taken your final investment decision then it is increasing significantly the risk, and you know the investors are just looking at their risk when they are taking decisions on where they should put their money. If they see that there is a tax that no one understands and that can be massive, it is increasing the risk and it will change the investment decision.

Seamus Nevin: Long-term corporate guidance is particularly important for the manufacturing sector, not least because many firms in our sector need to know or to be able to predict the business environment up to a decade in advance. They are making investment decisions for eight or nine years down the line.

Q243 **Rushanara Ali:** Mr Blaskey, did you want to add anything to that?

Adam Blaskey: Yes. I think it has to come from a point of principle. I completely agree with what you just said; any good tax policy has to be fair, it has to support growth, it has to provide certainty, and it has to be coherent. Everything we have heard proves the opposite.

Q244 **Rushanara Ali:** Okay. Mr Nevin, you advocate the use of a land value tax system. How would this be an improvement? Would it be an improvement based on reforming with those sets of principles in place alongside it, or leaving those points that you have all made already to one side, would it be an improvement full stop?

Seamus Nevin: Firstly, we recognise that all the potential alternatives have their pros and cons. None of them is perfect. That is just the nature of taxation; there is a trade-off that needs to be made. In terms of a land value tax, we think it is probably the fairest in the sense that it also increases the likelihood that you are using your land efficiently. If you shift to something like a sales tax or a production tax, you are possibly incentivising businesses to become inefficient in terms of using large amounts of space for low-level production. The other advantage of a land value tax as we see it is that it could incentivise investment in parts of the country that typically do not have huge amounts of business investment already. You are looking at areas where land is cheaper and, therefore, more affordable to invest in terms of opening up a new factory and creating jobs and wealth in regions of the country that are behind.

Q245 **Rushanara Ali:** I am sorry if I misunderstood. Could you say more about how you would rebalance regional disparities and how it would work?

Seamus Nevin: The assumption would be that because a land value tax would be based on the value of land in a particular region, manufacturers, as an example, would be disincentivised from investing in the south-east of England where the bulk of businesses and wealth are at the moment, and would be nudged towards investing in parts of the country where land is more affordable and, therefore, open factories in those regions.



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Q246 **Rushanara Ali:** Have you done much work on the cost-benefit analysis of what that would mean for regions where that investment would follow, in regions where the land value is lower?

Seamus Nevin: We have not gone into that level of detail. We do not have the data sets available to us. That would be something for the ONS and perhaps HMRC to look at.

Q247 **Rushanara Ali:** Would anyone else like to come in on that point? If not, I will move on.

Adam Blaskey: On the land tax, at the moment we generally know what the rent of a building is, so if a rateable value is purely based on the rent, it is very much a known known. We are opening it up to so much more subjectivity if it becomes a land tax. Farm land and industrial land is slightly different, but if you look at most commercial buildings, if we are not looking at the rent that is paid within the building, but now we are looking at the value of the land that the building is on, it becomes even more complicated.

Eleanor Griggs: One of the big issues, especially for rural locations, with land value tax is that it is based on best use of land. You have significant planning permission issues in rural places, which does prevent best use of land in some cases. There is not room, or capacity, or scope, even, to do something that is slightly more high value in terms of business.

Q248 **Rushanara Ali:** Following on from the earlier panel, do you have an opinion on the online sales tax proposal?

Adam Blaskey: I am happy to start. I completely agree with some of the things that were said earlier; that really a lot of retailing is omni-channel. I do not think an online sales tax really helps. I would advocate a simplification of tax, much less tax, which is much clearer for everyone to understand, whether that is a simple, consolidated tax, or just an increase in VAT, for example. There are other taxes.

Q249 **Rushanara Ali:** Do you think there needs to be a much more intensive look at—given the changes some of you have already talked extensively about, the changes in the way sales happen, and the fourth industrial revolution, and looking forward—not just addressing the changes to reflect the current situation, looking ahead at some of those trends? The submission from the Booksellers Association was interesting about the proportion of tax that Amazon pays, for instance, for a warehouse base in the same location as a small Waterstones shop. It is very, very different; Amazon pays significantly less, and others have mentioned it. What are the ideas for trying to capture what is happening so that they are paying the proper amount? Obviously, they are not locally attached. How do we do that? Do we need to somehow artificially find a way of localising it? Is it to do with the proportion of sales that they have in given regions? How should that be done? Any thoughts?



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Adam Blaskey: I think that is probably above our pay grade. That is something for the Treasury. I think it goes back to the point I said earlier: let us tax what you actually do within a space. If you are a bookshop, for example, and your shop is full of books, but you do not get many customers in it, you cannot really take books off the shelves to have some empty space. If you are a big warehouse and it is not in use half the time, you could hive half off and shut it down. You cannot just corner that off. In my business, half our revenue comes from meeting rooms and event spaces. Those meeting rooms are not used 100% of the time, yet we are still paying tax on it.

Rushanara Ali: Is there anything else you want to add? Any other big ideas that you think this Committee should be thinking about?

Chair: Is there anything else you came here to say on business rates today that we have not captured from you, any burning final issues? Okay.

I thank you very much indeed. I know that preparing for Select Committee appearance does take some time. We are very grateful to you for your evidence. I recently visited Vindolanda up in the north-east of England, and you might be interested to know that the Romans were arguing about how to tax businesses all those years ago. It is not a modern problem, but we will do what we can to try to flush some of the issues out. Thank you very much.