

Treasury Committee

Oral evidence: Impact of business rates on business, HC 1944

Tuesday 4 June 2019

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Treasury Committee Members present: Nicky Morgan (Chair); Colin Clark; Stewart Hosie; Alison McGovern; Catherine McKinnell; Wes Streeting.

Housing, Communities and Local Government Committee Members present: Mr Clive Betts, Chair; Kevin Hollinrake.

Questions 250-343

Witnesses

I: Ojay McDonald, Chief Executive Officer, Association of Town and City Management, Professor Christopher Turner, Chief Executive Officer, British BIDs, Councillor Richard Watts, Leader of Islington Council and representative of the Local Government Association, and Andy Street, Mayor of the West Midlands Combined Authority.

Written evidence from witnesses:

– [Association of Town and City Management](#), [British BIDs](#), [Local Government Association](#)

Examination of witnesses

Witnesses: Ojay McDonald, Professor Christopher Turner, Councillor Richard Watts and Andy Street.

Q250 **Chair:** Good afternoon. I thank our panellists very much indeed for being here for this next session in our business rates inquiry. I will ask our panellists to introduce themselves, but we also have two colleagues from the Housing, Communities and Local Government Committee—Clive Betts, the Chair of that Committee, and Kevin Hollinrake—who have joined us, because, as you will appreciate, business rates are of interest to a number of different Government Departments. Mr McDonald, perhaps you could start by introducing yourself for the benefit of those in the room?

Ojay McDonald: I am Ojay McDonald, the chief executive of the Association of Town and City Management, a membership organisation across the UK that looks after both business improvement districts and local authorities, through town centre managers and others.

Professor Turner: I am Chris Turner, the chief executive of British BIDs. Business improvement districts, as you know, are self-help organisations. There are 319 of them and we put £136 million into the country with 120,000-odd hereditaments across the country, so we feel that we speak for the business community in a fairly focused fashion.

Councillor Watts: I am Councillor Richard Watts, the chair of the Local Government Association resources board, and in my day job I am the leader of the London Borough of Islington

Andy Street: I am Andy Street, Mayor of the West Midlands. Just so that everyone knows where that is and there is no confusion, as there often is, that is seven boroughs: Wolverhampton, Walsall, Sandwell and Dudley in the Black Country, Birmingham, Solihull and Coventry.

Q251 **Chair:** Thank you very much indeed for being here. We will try to direct questions to appropriate members of the panel but, of course, if there is something you want to add, please try to catch my eye or the eye of the person asking the questions. Mr Turner, I will start with your evidence. British BIDs has told us: "Business rates tend to strengthen the competitive advantage of online retailers", due to their ability to operate from out-of-town warehouses. Perhaps you could set out for us what your proposals would be for online retailers. Do you think they should be penalised for operating a non-traditional business model?

Professor Turner: No. I think we have to be very careful not to make category errors here. A lot of small businesses in the middle of towns, which are bricks and mortar and do traditional retail, are also heavily involved with online. We have examples of small businesses where 50% of their turnover comes from online as well as from bricks and mortar. The issue with out-of-town online is that those businesses are able to get



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hugely reduced costs to their delivery, and therefore they compete on a platform that does not feel fair, at a time when the Government are pressurising high streets to be innovative, exciting and the centres of their communities, yet at the same time the rates mechanism seems to be stopping those businesses achieving some degree of neutrality compared with the outsiders. I have no solution to the online, except that we must not just assume that it is an online problem. It is about large suppliers that are very cheap and cost-effective, with huge delivery models, that exist out of town and may not be paying the sorts of taxes that we expect them to pay at a national level either. I think there is a sense of unease about the model.

Q252 Chair: Mr McDonald, do your members feel that sense of unfairness, in that often traditional bricks and mortar businesses, particularly on high streets, have to pay business rates, whereas people operating online are not taxed in the same way?

Ojay McDonald: Yes, there is a sense of unfairness from our members. For me, it is probably more than just the competitive element. Whether there is a level of competition or not, ultimately I think rates bills are just too high.

Chair: It is just the amount of money that is being taken.

Ojay McDonald: Yes, it is the amount of money, and that is partly because of changes in the economy. Also, if there is one thing that I would like to portray to the Committee before we leave, it is that retail gets hit first and it gets hit hardest because of some of those competitive pressures, but by no means is this just isolated to the retail sector. When you look at the way digital technology has changed, transformed, and really sort of unhinged the current business rates system, you look across all the various sectors and you see that it is hitting pretty much everything.

Q253 Chair: In your evidence, you said that "the impact of digital technology on society's behaviour is more profound than tax authorities realise."

Ojay McDonald: Yes, absolutely.

Chair: You are saying, basically, that this is a permanent disruption of a business model.

Ojay McDonald: This is a permanent disruption, and I do genuinely think that it is everything. Yes, retail gets hit, but think about how digital technology means that people who use offices can downsize in their property. An example I thought of just before I came in was something the Committee might know quite well: how HMRC has been able to withdraw from a number of towns and create more regional bases, because a lot of its services can go online now, so it no longer needs that space.

Extrapolate that out to all the various subsectors: offices; manufacturing, where you have got 3D printing coming in; banks, where you are seeing



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many financial services now being able to close in towns because people are doing more online; post offices—all of those various services can all contract because of digital technology. It is not just retail, although I think retail is probably the most sensitive of all sectors.

Q254 Chair: Mr McDonald, in your evidence you talked about towns being disadvantaged by how “business rates encourage landlords to convert strategic office space into residential using Permitted Development Rights.” Can you just unpick that view for us a bit further?

Ojay McDonald: Absolutely. This actually comes into the work done by the HCLG Select Committee in its “High streets and town centres in 2030” report, in which it quite rightly recommended that we need to diversify beyond retail and think of different uses. I fully support that. There is nothing controversial in that statement.

One of the challenges is that because rates hit so many different subsectors, anything that is not residential is ultimately very likely to attract a rates bill. That is a problem. I think there was actually a graph in the Select Committee’s report that showed that one of the hardest hit was actually a cinema chain, which is probably paying more rates than retailers because of the footprint of the particular cinema branches. That tells you some of the challenges we face.

Ultimately, if a lot of these commercial properties on our high streets remain empty, those rates bills are being picked up by landlords. The easiest thing for them to do is just to convert to residential, where in some areas the value of that residential is more than commercial space, and they are not going to attract that rates bill. Sometimes, it is office space that we do not necessarily want to lose.

Q255 Chair: Perhaps I can turn to Councillor Watts and Mr Street. Is this move away from retail or office into residential something you see in Islington?

Councillor Watts: Yes, it is. We have had some very big office-to-resi conversions, or retail-to-resi conversions, which have not led to the best quality accommodation. The Local Government Association has had a long position where we do not think that taking the properties out of the planning system is the best way of managing demand for more housing in a local area. Along with some associated avoidance techniques that go with that, which I am happy to go into at a later point in the evidence, there is a challenge about how the business rates risk makes it quite attractive to do that.

As a council leader and also through the LGA, I also very much hear the lobbying from high street businesses that we think are trying to do the right thing: having local employment and that local high street focus that all of us, as elected people at various levels, really value. They feel that there is a disproportionate tax burden on high street businesses versus some of that online, out-of-town stuff. I think we all recognise that there is a level of disquiet about that, and there is probably something in it.

Q256 Chair: Mr Street, is that a phenomenon you recognise in the West



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Midlands?

Andy Street: It is a phenomenon I recognise but, oddly enough, I am going to give a rather different answer from my two colleagues. Of course all the issues of quality need to be considered, but it is a phenomenon that we believe needs to go faster. One of the answers to the future sustainability of town centres is that there must be good-quality retail, but the more they can become vibrant places to live, the better. One issue here is the speed at which change-of-use permissions can be made, to quicken the pace at which unused property can move into residential uses, hopefully through not only a simple conversion of the existing building, but redevelopment to provide the right quality.

Q257 **Chair:** Mr Street, you are in a slightly different position from Councillor Watts, who is the leader of a local authority. For the benefit of the Committee, and so that we can ask you the right questions, could you explain the relationship that you have with business rates as Mayor of a combined authority?

Andy Street: I am glad that you have asked that question, so let us be clear. The reason I mentioned the seven authorities at the beginning, apart from the geographical point, is that they are the collecting authority, not the West Midlands combined authority. That is the same in Greater Manchester and in the Liverpool city region.

There are two critical points here that directly relate to business rates. Alongside Greater Manchester, we have one of the 100% business rate retention schemes in the West Midlands, and a lot of the West Midlands combined authority's funds come from the business rates that are retained. They are a critical driver of our income. This is a very good example of the whole model of regions retaining the upside of their economic success playing out. As the economic success of the West Midlands has developed over the past few years, our retained business rates have helped us to fund further investments.

The second interest is not as the collecting authority, but as the strategic authority, and thinking about the future of our town centres and the way in which the business rates contribute to that. But we do not actually collect them.

Q258 **Chair:** Professor Turner, I think you wanted to add something.

Professor Turner: I just have a tiny point on permitted development rights. In a sense, people are concerned about the move to residential. but hidden among all of that is the fact that the large office blocks have been unbundled and in many places turned into much smaller units, which are more in keeping with the economies of some of our small market towns. Large offices are being turned into 20 or 30 units.

That reduces the business rates, which may be one of the driving forces, but the outcome is that they are extremely fit for purpose for small start-ups, media companies and film companies, which want an initial start-up incubator space. There have been some good stories coming out of that.



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Ojay McDonald: I will just quickly add to that. To make our position clear, we have always championed more living in town centres. We have really been pushing that.

Our concern about permitted development rights actually overlaps quite strongly with the business rates system, because ultimately the decisions taken by landlords are distorted by the business rates system. We see a number of important office spaces, which do not need to be converted in town centres that are actually vibrant and were vibrant throughout the recession, because they had people working in those town centres, Monday to Friday, 9 to 5. Throughout the week, we have had vibrant town centres in those areas.

Because they have now become almost residential neighbourhoods, from which people commute—because those employment opportunities have turned to residential—they are vibrant on a Saturday and Sunday, but that does not replace that weekly trade.

Q259 **Mr Betts:** I apologise in advance, because I will have to go in about 10 minutes to chair another meeting. Before I go, I want to look at business rate reliefs. It seems that you have identified quite a few problems with the system. I think you are all suggesting that a fundamental change of some kind is needed, but the response so far appears to have been, "Here's a problem. Let's get a sticking plaster and call it relief, because it helps some people." Is that really the approach that has been taken in the last few years? Is it working?

Andy Street: I am very happy to answer that, because I think you assess it accurately. My reading of what has happened over the last few years is that a number of reliefs have been offered. Each of them is welcome and logical on its own, but if you stand back and ask whether they are really addressing the fundamental issue, the answer is no.

When you get one relief after another building on it, there is a clue, isn't there? You think, "This constant relieving cannot go on." My answer to that is that you have to say, "This system is past its sell-by date." In simple language, the system was designed in 1990, when businesses made money in a very different way. I would add that it is about not just retail, but—particularly in my region—manufacturers. Our biggest manufacturers, which use a lot of land, are high up in the list of business rates payers, so I argue that the time of reliefs has passed and that you have to stand back and have a wholesale review of the balance between the different ways in which businesses are taxed.

Councillor Watts: That is absolutely right. The system of relief feels a bit ad hoc, and local government is not consulted when a lot of these reliefs come in. Some of them are both quite hard to implement in practice and add up to a picture that, when you step back from it, does not really make a lot of sense. It does, to a degree, drive behaviour on high streets as well. I appreciate that this is not all about the high street, but we are seeing a profusion of charity shops around many areas because they get



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an 80% relief, whereas many other businesses in those areas do not. It is the nature of the reliefs that is driving business behaviour in some areas.

Professor Turner: That is absolutely right. The difficulty with reliefs is that they are not permanent. Anyone running a sensible business will run a spreadsheet—I have looked at a few—that looks five years ahead, and suddenly there is a cliff edge, the relief is gone and the businesses are completely and utterly uncompetitive. They soldier on in the hope that reliefs will keep soldiering on, but it is a daft way to run a business when you are relying on a cliff edge coming to an end in a year or so. That covers pubs and small businesses; a whole bundle of businesses are unable to plan properly if the relief system becomes normalised.

Ojay McDonald: I agree with all those comments. To add to that, the fact that we have so many ad hoc reliefs is symptomatic of the issues we have with the structure of the business rates system. If the business rates system worked and was fair, we probably would not need so many reliefs piled on to each other.

Certainly, my members tell me that some of the challenges are maybe partly because there is little consultation with local government when these reliefs come in. Much more could be done to make them automatic, for example, or making sure it is easy for businesses to be able actually to get their hands on some of these reliefs. I am told by my members that many businesses out there do not even know what they are entitled to and cannot access the reliefs because, for one reason or another, it might be fairly poorly structured, and I think that needs to be looked at.

Q260 **Mr Betts:** In agreeing with each other you answered quite a few of the supplementary questions, which is helpful. I just want to come to a point that is important. When the Government have announced reliefs, generally in the Budget, they have also said that the cost of the reliefs will be covered by central Government, which is presumably quite important, particularly for councils. Is there a concern that, as we perhaps eventually move to 100% business rates retention, and there is no direct Government grant funded separately, the Treasury might be more reluctant to find other sources of money to cover the costs of any reliefs?

Councillor Watts: You touch on the elephant in the room for local government, which is that almost all of our funding comes from business rates, because they are responsible for all our national funding and a very large chunk of our locally generated funding as well. I absolutely hear the calls from businesses that business rates are too high for many people—particularly retailers, some manufacturers and others. Equally, for a sector that is already very financially challenged, you are quite right that the risk for local government is that the local services that all our constituents rely on will be further cut, effectively because we start being expected to stump up for the cuts to business rates that I know others on this panel are arguing for.



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Part of the local government nervousness about the conversations about where we might go in reforming business rates is a recognition of the £8 billion funding gap facing local services by 2024-25. At the moment, Treasury policy is that business rates will be the primary source of funding for local government and all local services going forward, particularly—it has to be said—for social care. People can take a view on whether that is a sensible national system of funding or not.

Local governments, as democrats and localists, think that there should be more say over the relief system at a local level, where decisions are made by democratically accountable local councils, rather than by the Treasury, which sits above that. I think it would be better, whether between local authorities or mayoral combined authorities, or whatever kind of locally accountable body it is, if there were some sort of more flexible local system, rather than this national system of reliefs, which feels to us to be both not massively well thought through, when looked at as a collective whole, and very difficult and expensive to implement locally.

Professor Turner: The challenge here, which I have to say no one has yet spoken of but which we have mentioned, is that businesses effectively pay a 50% tax on their properties, because their properties have been revalued again and again. I merely point to the fact that domestic rates have not been revalued since 1991. In my town a business that is based in a large and rather elegant Georgian building is paying business rates of £60,000 a year, and next door to it an almost identical residential building pays £3,400 a year. That seems to be one of the great inequities, and we are possibly not focusing on it enough, for understandable reasons, and businesses are taking the hit. We keep seeing local authorities build into their plans the expectation that businesses will pay more or grow, and no one ever confronts that possibility—some people are paying less in council tax than their golf club fees, which cannot be right.

Chair: Clive, go on—follow that.

Mr Betts: It is an issue that the Communities and Local Government Committee is looking at. We are looking at local government finance as a whole, and the council tax system has been raised with us—it is pretty out of date in a number of respects.

Q261 **Kevin Hollinrake:** The village I live in is quite small, but 100 years ago it had nine butchers and today there are none. Why should we be worried about retail premises going back to residential as consumer habits change? Why have permitted development rights not been utilised to such a great extent for retail to residential, as they have been for office to residential?

Councillor Watts: The Local Government Association's view is that we should not necessarily be worried about that, but it should be planned and not just driven out of the planning system. Local areas can have democratic accountability over the degree to which that happens through their local council or mayoral authorities setting plans, and local authorities can also get critical levels of CIL funding or section 106



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funding, and all the funding we need to drive the necessary infrastructure that goes with a rising residential population. I trust local areas to know what is best. With the greatest respect to your village, I don't know anything about it—you and your councillors know far better than I do what is right for it, and therefore I trust local areas to make that decision. I think, however, that it should be done through the planning system, and not through the kind of permitted system that sits outside that, which leads to some of the horrific abuses that we have seen reported locally.

Andy Street: I don't profess to know where you live—

Kevin Hollinrake: North Yorkshire.

Andy Street: North Yorkshire. And I am not going to defend butchers, but I think there is a really important point to answering that question. We should care about this issue because it is about the vitality of our town centres, which are about a lot more than retail. It is about where people meet, where they get their identity from, and where lots of important things in their lives, such as public services, are conducted. If you ask people in the Black Country, which is one of the left-behind places in Britain, what they really care about and what they sense is a statement of success and confidence, the state of their town centres is near the top of the list. People care about this issue. My mission is not to make sure there are nine butchers left—this is about going with the grain of change in our town centres, and thinking about what a new town centre is about. Is the role of business rates helping or preventing the new town centre from emerging?

Let me give one clear example of this. We probably all agree that health services must be delivered in a better way, and health services being delivered on the high street is a good idea—drop-in clinics from our university hospitals, for example. If a clinic chooses to do that, it ends up paying significant business rates that it would not pay if it were in a remote location away from the centre and away from public transport access. There are some really illogical things about how business rates militate against the sort of social change we want to see. Too often, the argument is, "Let's defend the retailers," but as an ex-retailer, that is not my mission today. Retailers will go with the change—they are reinventing themselves. The question is about what is the future of our town centres as social places.

Q262 **Kevin Hollinrake:** In your area have people used permitted development rights from retail to residential? It doesn't seem to be happening very much.

Councillor Watts: To a small degree. The simple reason is that people had to jump on it quite quickly because there was initially a three-year window when it was first introduced. We already had existing 14 or 15-storey tower blocks, and they were bought up first because it was more profitable to do that; you could get 200 flats in them, instead of getting five in a three-bedroom street-front property.



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Q263 Alison McGovern: I am going to ask some more brass-tacks, down-to-earth questions about how the whole system works, and they are mainly for you, Mr Watts, as the person who runs a billing authority. Would you give us marks out of 10 for how easy it is to operate the business rates billing system, with one being really quite difficult and 10 being a piece of cake?

Councillor Watts: In all honesty, before the 2017 reliefs came in I would give it an eight or a nine, because it wasn't that difficult. The nice thing about property-based taxes is that it is really hard to hide property, which is why there is a core argument for retaining property-based taxation in this area. It is far easier to identify and find property than it is to find profit. The reason why business rates largely have a 98% in-year collection rate is that they are a relatively simple tax to administer. That is one of the great arguments for the protection of the principle of property-based taxation.

The more recent reliefs have made it more complicated. For example, many local authorities had to invest heavily in changes to software to implement those. Had we been consulted before they had been brought in we could have highlighted some of that, and it would have made their lives easier. So I think it has gone from an eight or a nine to a seven.

Q264 Alison McGovern: Okay, so it is still a seven. As the billing authority, do you have a responsibility to ensure that all businesses that are liable for paying you business rates are aware of potential reliefs that might be available to them?

Councillor Watts: I am sorry, but I am going to have to take advice on whether there is a legal responsibility. Forgive me. Mike, do we have legal responsibility for having to find those reliefs?

Chair: You can always write to us.

Councillor Watts: Forgive me, Alison. I will write to you about whether we have a legal responsibility or not. Clearly, we have done a lot of work on the individual councils. Many councils have supported businesses that have gone through a re-evaluation. As a local authority, we have run a series of workshops to support people with their re-evaluation claims and to take their cases to the valuation office, and given a lot of support. A lot of local authorities across the country are putting in place those kinds of support services, to support their local businesses through some quite major transitions.

Q265 Alison McGovern: From a practical point of view, would you want to do that whether or not you have a legal responsibility?

Councillor Watts: Yes.

Q266 Alison McGovern: Do you think that there is a benefit to the authority from having some reliefs automatically applied, whereas others have to be applied for? Is that a complexity that frankly you could live without, or does it make life easier for you in some way? From a practical point of view, how does it work for collection?



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Councillor Watts: In practical terms, whether or not it leads to the policy outcomes you want, something like the charitable relief is well understood—it has been in place for a long time and therefore it is very simple. It is not those long-standing, well-established reliefs that are the challenge; it is some of the more complicated ones that have evolved, the combination of reliefs around the re-evaluation and a further set of reliefs put in place as a result of a re-evaluation, when people saw some of the consequences of that at relatively short notice. A lot of extra complexity was injected into the system at that point. Some very practical stuff, such as software, wasn't in a position to manage at that time.

Q267 **Alison McGovern:** That is very helpful. Mr Street, you may have a view on this as well. How much collaboration happens across councils on this? Is there any working together to minimise duplication? Does much of that go on or are the local authorities just on their own, doing their own thing?

Andy Street: Let me answer in relation to business rates retention, because that works as a pool, so there is huge collaboration. The FDs of the seven authorities that make up the combined authority have agreed how that should be split between them, because obviously there isn't equal progress at all times. Cross-party, we have seen an incredible degree of collaboration, but in terms of how each authority navigates the type of question you have just been asking Councillor Watts, it is very much the case that they do it on their own.

Q268 **Alison McGovern:** From an LGA point of view, presumably there is advice and that kind of thing?

Councillor Watts: There is, but it is worth saying that of the many challenges and issues that keep me awake at night, the collection of business rates is not one of them. It is a basic part of what we do. I have never, in my five and a half years as leader and eight years as a cabinet member in Islington, ever particularly had a problem with it. The 98% collection rate suggests that, compared with the joys of managing the children's social care system, this is actually really easy. I think that the simplicity of the collection system is one of the things that speaks well to the continuation of the principle of property taxation.

Q269 **Alison McGovern:** That is really helpful; thank you.

Professor Turner, you mentioned the inequality in the taxation of residents versus businesses, but businesses have had corporation tax cuts. One of the questions that we have been thinking about in this inquiry is the balance between tax on existence versus tax on profits. Do you think businesses have not really noticed the corporation tax cuts over the past few years because of the situation with business rates, or do you think they prefer to be taxed on profits because that is more of a tax on success and income, and the business rates are a problem because that is a tax whether or not they do well? What is your view on the balance between those two types of taxation?



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Professor Turner: I think it is about visibility and perception. In the middle of a small town, such as Winchester, St. Albans or Worcester, the sorts of businesses that are in a BID are generally not in the heavy corporation tax-giving end of the spectrum, whereas their property taxes—remember, they are not in any way a tax on their business; they are merely a tax on the space they happened to rent 20 years ago, when no one thought about these problems—have suddenly, in the last five years, become huge. They are paying £60,000 or £70,000 a year on a tax that, if I am honest, they think goes towards their local authority, because the bills come from their local authority, and they have seen a reduction in absolutely everything in their local authority. So some of this is a perception thing. I think that we could rephrase it and call business rates a business tax, and recognise exactly what it was, and explain it more carefully. But it has without doubt been that huge increase in the last three or four years on small businesses, where they are now really finding it is a problem.

Q270 **Alison McGovern:** This is the final question from me, unless there is anything else you want to add. You mentioned that people think that business rates fund their local authority directly. Local authorities, at the same time, because of some of the issues that Councillor Watts just mentioned, have less and less capacity to take active measures to support businesses. Would you describe that as creating quite a level of frustration, really, in the relationship between businesses and local authorities?

Professor Turner: Yes, and a deep unease. People running their own businesses are intelligent people. They are running it because they have made conscious decisions. They read the newspapers. They know that the gap in funding is getting worse and worse. They know that their rates have gone up to 50%, as they see it, and they don't quite know what is going to happen next. Is that going to go up and up? People are really nervous about what is going to happen. This inquiry is therefore very important to a lot of businesses; it will affect some of them surviving or not.

It is because this 50%—big money—is suddenly being paid as a tax to something that is no longer providing what people need, which is why BIDs, if I am honest, are almost an indictment of the system. Here are businesses voluntarily putting extra money into a pot to pay for the things that they think there should be in a town centre: extra police, extra lights, extra cleaning. It is almost a terrible indictment of the local authority business rates model that BIDs had to come into being, and they are growing—we have got 40 lined up to come into being. I think that is a sign that businesses really want to contribute and do not necessarily feel that this money is going in the right direction, because it is going, quite understandably, to pay for old people's homes, care homes and so on. There is a model here that needs to be unbundled and explained with greater care, I think.

Ojay McDonald: I think we are starting to get to the nub of some of the issues with the business rates system. I just want to bring it back to the



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very first question around the ease of actually using the business rates system, and Richard's comment, which I both agree and disagree with at the same time. I will explain: yes, absolutely it is nice and easy to operate the business rates system, because you know where a property is; you know how much it is valued for; and you can tax it. That is fine, but I actually think that is part of the problem we have with the tax system.

To understand the issue with business rates we need to think about how business is evolving and also look at how business tax just isn't evolving at the same pace, both in terms of business rates but also corporation tax. With corporation tax, when we are taxing profit, profit is a mobile capital; you can shift it. That is part of the problem, because business practices have changed. Corporation tax came in about 100 years ago, after the first world war. It is out of date in itself, and because we can shift profits so quickly, the mobility of that tax means that a lot of our tax authorities globally probably are not getting the money that they should be getting through the corporation tax system. I think that the response from a lot of countries has been to see whether they can reduce that corporation tax rate, to try and bring more of that money in, because you can shift your profits.

The response that we have had is to not look at any adjustments to business rates, because we need that tax revenue to fund our public services. However, at the same time, those same business practices mean that a lot of these businesses do not actually need to rely on property any more. Property used to be a necessity if you wanted to trade—you needed your warehouse, shop or office. With the digital economy, we no longer need it, so all of a sudden it becomes something that disincentivises investment in our towns and cities, because people can go digital.

Rather than saying, "Business rates are nice and easy to collect, so let's just rely on them to bring that money in," I am afraid that is not how it works any more in the 21st century. And my fear for local government is that if we do not consider reforming the system, then those revenues will dry up, because I do not see how the current system can continue in the long term. It is not sustainable.

Q271 Alison McGovern: Of course, businesses want the things that local government statutorily has to pay for, such as child protection, social workers and other things.

Ojay McDonald: Absolutely. My members are both private and public sector, and I tell you that the role of public sector is vital and needs to be well funded, and we cannot do that unless we have the right business tax system.

Q272 Kevin Hollinrake: This question is to Andy and Richard, really. With the balance between services, which are under the discretion of local authorities, but they also have the responsibility to distribute discretionary reliefs, is there a conflict there, in terms of two sides of the same coin?



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Councillor Watts: No, I do not think there is, because in the end councils can make decisions about the balance that they want to strike between further discretionary reliefs encouraging particular things, and the level of services that they may have to cut in the current environment to pay for that. That is a legitimate local decision on which locally elected people can stand or fall on the decisions they take. I do not think that there is an inherent conflict in some of that local relief system. I think it is completely within the proper duties of an authority in trying to shape its local economy.

Andy Street: But it is very small. We have to be realistic about this. The total take from business rates is £30 billion, and the discretionary relief, even if it is all used—I will probably get this number wrong—is £300 million. I think that is what is on the table. It is a tiny percentage and it is not even all taken up. Of course, it then gets to failing the transparency test as well.

Going back to the second question that Clive Betts asked, extending the reliefs is not the solution here. You have got to come to a more wholesale piece. Perhaps I can jump in with a thought about that wholesale piece. There is another irony that I want to draw out here. The Government, since 2010, have been very keen to develop enterprise zones, and they have been very successful in some locations in driving enterprise zones. If you have driven along the M54, you will have seen the Jaguar Land Rover site north of Wolverhampton, which is on the i54 enterprise zone. It is a brilliant example of the model working. We are quite happy to give huge reliefs there, but then you would go into the city centre, not far away, and we have not given a structural relief. Again, you just get to that point of inconsistency.

Where I think we have got to go on this, if we are genuinely determined to change our town centres, and not just to protect retail—retailers are part of the component—is that we need to be moving to a more wholesale, structural piece, something like a free trade or enterprise zone in the town centres, to say, "This really is important". You bring together some of the conversations we have been talking about. You could exempt public services from paying business rates in town centres. I mean, is it not slightly strange that, as I said earlier, a doctor's surgery on a high street will pay a lot more, even though it is more accessible? You would be able to give special planning powers for town centres. We have done them in enterprise zones, but we are not prepared to do them in town centres in the same way.

Critically, you could exempt for certain areas—you might measure it by vacancy rate or something—or you could exempt retailers under a certain size from business rates entirely, so you would get a transparent arrangement. That would be a clear package of interventions, just as the enterprise zone model has been, so that in certain town centres specified by a number of criteria, you would bring a number of measures around what you might call a free trade zone to encourage investment back into town centres.



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Q273 **Kevin Hollinrake:** You make the very valid point that there is only £300 million of discretionary reliefs, but there is around £4.2 billion in total of mandatory reliefs.

Andy Street: Correct.

Q274 **Kevin Hollinrake:** Should all that money be delegated back to the local authorities so that you can make those decisions?

Andy Street: I think my previous answer was that those reliefs are built on wobbly foundations; what I am really saying is that you have to go back to the core foundation. I would be very happy if all those decisions were moved back to local authorities, because that is the principle of devolution at work.

Councillor Watts: I agree. I think that would be a better system. It is also worth saying that some things that might be termed sharp practice or evasion within business rates relate to the reliefs. There was an example in my own local authority—I should be clear that we challenged it and it was found to be perfectly legal—where a charity was taking on empty properties to turn them into “emergency shelters”, because they would then qualify for emergency relief, even though we as the statutory body responsible for co-ordinating emergencies had not been notified of those emergency shelters and therefore could not possibly use them. There are things like that, which feel to me like sharp practice at best.

Q275 **Kevin Hollinrake:** The Committee has received evidence from Surrey County Council that the cost of managed reliefs in 2019-20 will be £4.2 billion, the burden of which falls to local authorities. Is that the case in your experience?

Councillor Watts: No. I think local authorities’ funding largely takes into account the Government’s understanding of where the mandatory reliefs are. Effectively, local authorities get about £26 billion or £27 billion a year in total Government funding through grants, not including the dedicated schools grant and all the funding for maintained schools. The business rates system raises a broadly similar amount, give or take, which goes back to central Government. There is complete opaqueness in the transfer between the two; the Government accounts merely say that the business rates income is meeting its legal obligation to be transferred in local authority grants. But broadly the figures stack up, if you include the better care fund money, which the Government simultaneously say is in the NHS budget as well—it cannot be in both, but there you are.

I don’t think we are paying for the mandatory reliefs, but it is quite right and proper that local authorities pay for their own discretionary reliefs, because that is the decision that they take between funding services and aiding businesses in the local area. I think that is democratic.

Q276 **Kevin Hollinrake:** What percentage of your income was raised through business rates last year?

Councillor Watts: If one accepts the argument that all our central Government grant and all our central Government funding come through



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business rates, Islington's net funding requirement is—*[Interruption.]* In broad terms, my local authority spends something like £250 million or £260 million a year, of which we raise less than £70 million through the council tax system. All the rest comes from business rates. It is either locally raised and retained or comes through Government grant, which is wholly funded by business rates—so the Government says.

Q277 **Kevin Hollinrake:** And you are on a pilot for business rates at the moment?

Councillor Watts: London is in a pool pilot, but it has just been moved from 100% to 75% retention-rate level.

Andy Street: Perhaps I could answer that question as well. As I said earlier, we are not the billing authority. If you ask how the retention works for one of the individual authorities like Solihull—actually, it would be the highest in the region for Solihull, but this is for any of the authorities—and how important it has been for the combined authority to get its firepower, the answer is “very”. There was nothing just two years ago, but of our new operational budgets, about half comes from retained business rates. It is significant. If that principle of some form of retention were to be lost, we would not be able to carry out our activities around developing our skills strategy and housing strategy.

Just to link this to the question that Alison McGovern asked, I do not necessarily feel it is business rates that have to be retained; there can be other elements of business taxation that can be retained. It would not be beyond us to say that the increase in national insurance contributions paid by employers can all be tracked back to a locality. That would give a brilliant incentive if it were to be retained. I do think—again, drawing something out of what Alison McGovern asked—that businesses get the idea that it is fair that they should pay for some improvement in local service, but they want to see it in a very transparent way. Although we have had the right to do a business rates supplement, we have not done it, because we do not believe we could really make that clear to businesses. In the whole of the UK, the only case where it has been done is Crossrail. Again, there is a sort of message in the fact that it has been on the statute book for nine years, I think, and there has been only one example in the most affluent city in the UK.

Professor Turner: Just to follow on from that, when the phase “business rate retention” was bandied around a few years ago—this goes back to your point, Ms McGovern—all the businesses thought that meant their business rates would remain local and would be spent on things that made business better. They got very excited about that. The reality, of course, is that it has gone up, but it is simply filling the gaps in the local authority funding. I don't mind that, because someone has to pay for hospitals and schools, but it needs to be explained with greater care.

Councillor Watts: It is not that it is filling in the gaps; it is the fundamental core of the local government funding system. It is not additional. The fact is that the vast majority of our funding now comes



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through business rates, which has been the direction of Government policy under all Governments over many years, but has particularly accelerated since 2013 or 2014. The reason why local authorities feel it is important to contribute to this debate is not just because this is about the future of our high streets and local businesses, which is incredibly important to us. In what is already a very financially pressed sector, this is fundamental to our future financial survival.

Q278 Kevin Hollinrake: Richard, you said that around £70 million is raised by business rates in Islington.

Councillor Watts: No, it is the other way round. Broadly, two thirds is raised by business rates locally and nationally. About one third is raised through council tax. In 2010, 11% was raised locally through council tax. Despite Islington's reputation, we are actually a very deprived area.

Q279 Kevin Hollinrake: So £180 million. How much discretionary relief did you have? What was your budget for discretionary relief?

Councillor Watts: We don't have any local discretionary relief, although we have tried to do some smoothing out of the Government's reliefs around the revaluation. Our area was very badly hit by the revaluation, so effectively we have used some local reserves to try to smooth out that funding.

Q280 Kevin Hollinrake: So virtually no discretionary relief.

Councillor Watts: No.

Andy Street: We are in a totally different position, because we are not doing that. It is a question that every individual FD for each authority would have to answer.

Q281 Kevin Hollinrake: I see. You are not aware of those figures.

Andy Street: I am not aware of the figures and, to be fair, it is not my responsibility to do that.

Q282 Kevin Hollinrake: But you are the only person we can ask on this panel.

Andy Street: That is true, but, equally, I should not speak beyond my remit.

Q283 Kevin Hollinrake: Will you drop us a line?

Andy Street: We can do that for each of the seven authorities.

Q284 Kevin Hollinrake: It would be very good to know the breakdown by industry and by the relevant discretionary relief, which we accepted that you supported.

Andy Street: What I would like to give you as well, because I think this is very interesting information when you talk about the breakdown by industry, is the way in which business rates fall by different type of business. There is a general perception that it is all around retail, but that is not true in the West Midlands.



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Q285 Chair: We are very keen to bring that out in this Committee. Obviously, our HCLG Committee colleagues have done a very good job at looking at the high street, and we are very conscious that these rates are paid. You mentioned JLR earlier on, which presumably pays a phenomenal amount of business rates.

Andy Street: Correct.

Q286 Kevin Hollinrake: Can I ask you about local authorities investing in commercial property, which is an increasing phenomenon? Are they becoming too reliant on the rental income from that as well as the rental income from business rates? Isn't this like a double-whammy huge risk that might backfire at some point?

Councillor Watts: I think local authorities are in a difficult position, because we have been told to be entrepreneurial and then we get criticised for being entrepreneurial. As we have lost the vast majority of our central Government funding, local authorities have worked hard to build up reserves and are taking individual decisions about how they best spend that. I cannot account for every individual local authority's decision to buy shopping centres in other bits of the country and stuff like that.

Q287 Kevin Hollinrake: Are you doing that or not?

Councillor Watts: No, we're not. We have taken a particular decision that we are not going to do that, largely because we don't have the reserves to do that. Where we do think we are going to spend some money on acquiring property, we are going to do it in our own borough for wider economic development purposes, rather than because we particularly see the value of commercial investment in shopping centres in Bolton or whatever it is.

I know there have been some very high-profile newspaper stories of quite small district councils using some very big investments. I am sure they have all been through due diligence—they will have had to have done that—and I do not want to second-guess the individual finance directors or section 151 officers who have had to sign those things off. I do not think that leads to an inherent conflict of interest in the system. The London Borough of Islington council has an interest in our local area thriving. That has a direct financial benefit to the council because of business rates retention, but frankly, we would want it even if it did not because we believe in our area, we believe in the people of our area and we want our area to thrive full stop, as any elected representative wants their own area to thrive. I do not think there is an inherent contradiction; we all want our areas to do well.

Q288 Kevin Hollinrake: It is more the risk I am concerned about, really, in the system, of doing that.

Andy Street: The other side of that: I think there is an important role for local authorities or, in our case, the combined authority to intervene in a property market that sometimes is not working. We have heard in one or two other answers about the forces of inertia. If we look at some of the town centres in our area that have got stuck and are declining, the landlords are sitting on the property assets and not doing anything with



them. We have got what we call a town centres programme, where we actively intervene and buy those properties, not to sit on them, because that is the bit that is wrong, but to change their use and to reinvest. Of course there is a risk in any property transaction like that, but I think it is a very appropriate use of a public fund to do that, provided we are not building up too much risk on the balance sheet, which has always got to be assessed.

Kevin Hollinrake: Sure.

Professor Turner: Can I just reinforce that? BIDs are very involved with some local authorities. The whole idea of curating high streets is a big interest at the moment. How do you curate a high street when there are lots of separate pension funds that do not really give a jot? The only people who really can curate high streets is a local authority buying up defunct property and doing innovative and creative things with it. As long as they do innovative and creative things—they don't just put the same old tosh back in—then all will be well. I have to say that there are some really great examples of local authorities that have bought up big market halls, reinvigorated them and BIDs have been very involved with that. We have to recognise that as a very innovative project.

Ojay McDonald: I have to agree with a lot of those statements. There is definitely a risk in terms of local authorities dipping their toe in the water and buying up commercial property, but for a lot of them, it is not necessarily about sitting on it and just hoping it is a commercial success. It is the fact that many of them are trying to address some of the market failure we are seeing. A lot of the route to that market failure is the fact that we have such a fragmented system of property ownership that, in terms of creating a unified vision for the town centre, it is a challenge, because the landlords will have so much of a role regarding what property will fulfil what purpose in a town centre. If you have that fragmented ownership, it is very difficult to find a way forward. A lot of local authorities are buying up that property with the intention of making a town centre work as a destination for the community and visitors alike.

Councillor Watts: You are right to identify that there are two separate phenomena going on. There is doing a thing that Islington, along with many other local authorities, is doing, which is buying up or working with others to buy up properties in our own borough for a local economic development purpose—exactly what has been described here—versus some other councils, which, purely as commercial investments, are buying property out of area. These are very different phenomena. As I say, all of those out-of-area investments have got to go through due process and finance directors have got to sign off on those. What is bizarre, though, is particularly when you look at the £1 billion my own authority has tied up in a pension fund, it is far easier to get the lawyers to sign off on investment out of area—in fact, out of country—than it is on investment in our own borough.

Q289 **Kevin Hollinrake:** Why is that?



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Councillor Watts: They argue that they are very risk-averse people and they argue that we are less subject—if our local economy tanked, for whatever reason, that tanked our business rates, our council tax and a whole range of other things. If it tanked our pension fund too, we would be triply exposed.

Chair: I think we have to move on.

Q290 **Stewart Hosie:** I have a quick question before I ask about reserves. You spoke about curating high streets. I think we all know what a nice high street looks like, but there has to be a recognition that not every high street in every community can support half a dozen artisan bakers.

Professor Turner: I would argue completely the opposite. BIDs are getting very interested in this these days; in recognising, for example, that if you have a business improvement district in Basingstoke, Winchester, Salisbury, Southampton, Guildford, we all want our towns to be slightly different because people make very different decisions. You go to one place if it is cold and wet and rainy and another place if it is hot and sunny, so we all want our towns to be slightly different. The challenge is that the current market forces of high rates and high rents are making them all exactly the same, because of national players moving in with the big pots.

Our job is to curate and try to keep some of those local things going. Local things may be very low rent and slightly down-market areas at times, where people can start businesses and engage with artisan breweries and bakeries and, in our case, gin-making parlours and can then fledge them.

Q291 **Stewart Hosie:** Indeed, I agree. Mr Watts, do the levels of outstanding business rates appeals with the VOA impact on the level of reserves that local authorities have to hold?

Councillor Watts: Yes, they do very significantly. One of the big issues that local government faces at the moment is the risk inherent in the appeal system. We estimate that something like £2.6 billion is currently sat in local authority bank accounts that could be used on critical local services under pressure but are being retained at the moment to manage the risk of appeal.

Q292 **Stewart Hosie:** I will come back to that figure in just a minute. How long do you have to keep these reserves for? Is it until the appeals are resolved?

Councillor Watts: Effectively, yes, because you need to plan prudentially around the risk that those appeals face. I do not have a time figure on the backlog at the moment, but it is years and it is enormous.

Q293 **Stewart Hosie:** We have heard that and, again, that is something that I want to come on to. Presumably, then, in a general sense, the longer the appeal takes, the more money you have provisioned sitting unspent on other things?

Councillor Watts: Yes.



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Q294 **Stewart Hosie:** You said £2.6 billion. The District Councils Network said for 2017 to 2018 it was £1.4 billion of billing authority income locked up. Whose figure is right? Where do we think it actually is? You say it is £2.6 billion—convince me.

Councillor Watts: I do not know how the DCN—a very valuable organisation the LGA works with closely—got to its figure. Our figure is a March 2017 figure, based around return. Their appeal is primarily against the 2010 valuation list, by the way, which gives you a sense of the—

Q295 **Stewart Hosie:** We have heard that very few of the 2010 appeals have even started, let alone finished. Let me take these questions slightly out of turn. Is the solution to that a time limit or, as other people have said, a time limit would be bad, because they would rather see the correct valuation than a quick decision? Tell me about changes to the process to resolve this, because stuff unresolved in 2010 is just preposterous.

Councillor Watts: I think that is right. The check-and-challenge system has been a success in cutting the number of appeals. I think we have seen some progress in all this, although it is worth saying the LGA figures come from the out-turn it takes from the MHCLG. They are effectively the extra reserves that local authorities have allocated to this since business rate retention was done, so we are confident in those figures.

We think there is some progress in answering that online check-and-challenge system that is valuable in speeding up some appeals. I do think, though, that the complexity of the valuation system is at the heart of some of the legitimate complaints around the business rate system. The way in which valuation is done and what seems to be a very odd set of methodologies is, in fact, all done by single national Government agencies, not by local authorities. So GP surgeries can be revalued and the business rate bill goes down by 60% in some areas, even though the property is the same. A lot of the problems with business rate are around the valuation system. That is where a lot of the appeals sit, so clarification around the valuation system and an improvement of that, which we are very open to, would significantly reduce the appeals risk as well.

Q296 **Stewart Hosie:** Mr McDonald, what do your members say about this?

Ojay McDonald: There are no good words to be said about the appeals system from anyone, anywhere; it was probably the biggest complaint yesterday when I put out a message to our members asking for any feedback before I came into the session today. A few members said that it almost feels like the appeals system was made difficult, with a number of hurdles put in place to prevent appeals from coming in.

Just hearing that some appeals go back to the revaluation in 2010 concerns me. Some of the small businesses that might be paying over the odds are not going to last that long. I would not be surprised if a number of businesses that are not with us any more should have had something from the appeals system but just did not get it in time.



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A member in Stratford-upon-Avon was fairly vocal about his concerns around the appeals system. He called it the “check, challenge and stay the same” system, because it is so difficult for a lot of businesses to use. Part of the problem, we believe, is that the VOA is just not adequately resourced. For Stratford-upon-Avon, they relied on the Coventry office, which has been really unresponsive. The demise of those local contacts means that, when you have an unresponsive system, things just do not work properly.

There are lots of concerns about where you have things like roadworks, construction or anything that might legitimately mean that any businesses in the area, especially those retailers that rely on footfall and paying custom coming through the door, should, if customers are prevented from getting into the store, get some sort of relief just to get them through. The way that the appeals system is working means that that is just not happening.

Q297 Stewart Hosie: Mr Turner, do any business improvement districts—BIDs—not happen, or are not supported, because businesses are afraid that their rates bill will change, or because the appeals process is so clunky and cumbersome?

Professor Turner: Predominantly, our feedback, along with that of Ojay, is that the anger is about the time that it is taking. There is a real sense that some businesses will have gone under before their appeals are heard, and they might actually have had enough back to keep going. There is also a sense in some BIDs, which have been involved in fairly large local authority projects—regeneration projects—where clearly there have been big rate changes, that that is not getting enough money back into the system, or is taking too much money out of the system because the system just is not compensating fast enough.

Q298 Stewart Hosie: So there a softer knock-on, but it is not direct.

Professor Turner: Yes.

Q299 Stewart Hosie: Right, that’s fine. Mr Street, you are in a different position, but some of your money can come from business rates. What is your view of £2.5 billion, some of which could come your way for strategic priorities, being locked up in provisions because of a 10-year delay in resolving revaluations?

Andy Street: This won’t surprise you: we have had exactly this conversation with the individual authorities, because they have to, through their own prudence, keep those reserves back before they can commit them to the pool. The straight answer to the question is: yes, there is a direct consequence on how much comes to the pool, because of what has to be held back, pending that process.

Q300 Stewart Hosie: Mr Watts, just so that I can understand this, is the provision in reserve the full amount, or is it a proportion, assuming that some will succeed and some will fail?



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Councillor Watts: It is a risk-based proportional amount. Local authorities, to coin a phrase, would look at this prudentially. We would very much hope never to have to spend that full amount of money on the provisions of the appeals, but, to be honest, in the current financial circumstances that councils face it would be impossible to spend that money and then try to claim it back. People are being cautious in holding money back at this stage, particularly given that this is a relatively new system and there is not a long track record that allows you to judge from precedent how the appeals are going to go.

Q301 **Stewart Hosie:** Finally, with business rate retention going from 50% to 75% to 100%, this will only get worse, and the provisions will only increase. I think that's correct.

Councillor Watts: Absolutely. It is worth saying also that I have found a figure on the number of outstanding appeals: 66,000 appeals are currently outstanding, the last time we saw figures.

Q302 **Stewart Hosie:** What should the Government do?

Councillor Watts: It requires a fundamental look at the valuation methodology. Although the Valuation Office does a good job in difficult circumstances, it's incredibly hard for a single national agency to co-ordinate all of this across incredibly diverse bits of the area, and the failures of the valuation system are at the heart of a lot of the failures of the business rates system that businesses talk about.

Q303 **Stewart Hosie:** When does the failure to fund the VOA properly and resolve this become a national scandal?

Councillor Watts: It depends on your view of £2.6 million being sat in council bank accounts while we are closing libraries and children's centres.

Stewart Hosie: Billion.

Councillor Watts: £2.6 billion—indeed.

Q304 **Stewart Hosie:** Do you think we are almost at the real problem stage?

Councillor Watts: I think there is a real problem here, yes.

Q305 **Colin Clark:** This is to Chris. In your written evidence, you state that business rates are a penalty for creative and innovative businesses, which are penalised for putting more back into their businesses. Can you explain what you mean?

Professor Turner: We have to keep remembering that businesses are in a property that they have taken on for a whole bundle of other reasons. They don't own their properties, generally; I will come back to the few that do. Therefore, those that invest innovatively and creatively in their properties to make them something exciting, to meet the needs of a high street, to make them a bit more rock and roll-y are actually putting more in and are then instantly penalised—well, not instantly; it takes a long time, but they are then possibly penalised fairly quickly for putting that investment in.



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I can identify at least two or three restaurants, bars or public houses where people have done a lot of interesting stuff. The owner benefits, because of course the property value goes up, but the tenant is the one who pays the extra tax, so slowly people will be less innovative and spend less money on the processes.

Q306 Colin Clark: On that point, you touched earlier on the fact that local authorities are financed by business rates, and business rates are a property tax and are a constant. Rent is a constant. If you moved to some sort of profit tax, it wouldn't be so constant. So if rents are constant, why should business rates not be constant?

Professor Turner: I am not sure I am arguing to move away from a property tax; I'm just arguing that a 50% property tax is a very high taxation rate when it is not under the control of the person who is paying it. You and I pay tax. If we don't want to pay too much tax, we just work a bit less and we pay less income tax. If you are paying property taxes, you have to pay that, however much your business does.

Therefore, I am looking to a model whereby a local authority can be much more innovative and creative on what it does in terms of those demands. It seems to me that 50% is very high at the moment, when corporation tax is, what, 20%? It's something of that order.

Ojay McDonald: This is so complicated. I'm going to try my best, but bear with me.

Should it be a constant? I think that can work, but the way the business rates system is structured, it isn't actually a constant. You have your rent. The business rates you pay are from the rateable value, which is related to your rent, but because the national system is revenue-neutral and we are talking about the Treasury collecting £30 billion a year, what happens at a revaluation is basically that the VOA decides who is paying what to make up that £30 billion a year.

If, as I say, we have challenges because the economy is changing and people are less reliant on commercial property, it means that the commercial property that is left has to pay a bit more, to make up that £30 billion a year. Chris talks about businesses having to pay about 50%; a few years ago, it would have been about 30% of their rent they would have paid, but with each revaluation, the rateable value has to go up and up and up, to make up that £30 billion a year. That shows you the trend.

If it was a constant, if it was a fact that businesses were paying 30%, on top of their rent, to cover business rates, we would be in a much better position, but we would also have a lot less money to pay for public services. If that was a constant, that would probably be fair, but we would need, then, to find a pot of money to support local authorities with the funding they would be missing out on. That's the big challenge.

Q307 Colin Clark: In Scotland, businesses below a £15,000 rateable value don't pay business rates, but rents have responded, so are rents responding to the change in business rates?



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Ojay McDonald: Rents do respond. There can be a lag.

Colin Clark: In Scotland, if the rateable value for your property is less than £15,000, they just put the rents up, because they know the people won't pay business rates.

Q308 **Chair:** I think that in an earlier evidence session somebody said the link had broken, or we have had evidence to say that rents are not responding.

Professor Turner: I don't think they are responding. Rents are being driven by, generally, high yields in the successful areas and they are being pushed higher and higher. In other areas, that is not the case. But I don't think there is a link in some of the more affluent parts of the UK.

Chair: The way the link should be working.

Ojay McDonald: There is no universal answer to that. When you look at a place like London, which is an international property market, it is a completely different situation from what you will find in other parts of the country.

I know there was a property owner in Wales who said that he could have his rent at £1 a year and he still would not be able to give his property away, because of the cost of the rates on it. In terms of rents responding, it is a really mixed picture.

Q309 **Colin Clark:** This is a question to Richard and Andy, just moving on from what the other two gentlemen were saying. What are local authorities doing to encourage investment?

Andy Street: That is a vast question, isn't it?

Colin Clark: You have a couple of minutes.

Andy Street: Our answer in the combined authority is that we literally just had the launch of our industrial strategy. That is basically the economic plan for the West Midlands, including which sectors of our economy are going to provide the jobs of the future and where we have a competitive advantage.

The public authority's responsibility is then to ensure that things, whether it is transport skills, housing or the supply-side economy, are driven there. We are trying to ensure that each of those three things are concentrated in places where the conditions for investment have been poor before. I have to say that we have had good support from the Treasury on that. If you look at our housing deal, for example, there was specific funding for the Walsall to Wolverhampton corridor to bring together transport, housing and skills.

Q310 **Colin Clark:** If you do encourage investment, do you get to keep the income?

Andy Street: On our model of 100% business rates retention, we do. We are very happy with the model—this is not about how the business rates



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work, but the principle of retention—and all our local authorities, on a cross-party basis, signed up to that opportunity back in 2016.

Q311 Colin Clark: In Scotland, we have a block grant. The block grant gets cuts if you are—in the north-east of Scotland, we raised an extra £100 million, but that does not matter because our block grant gets cut. Mr Watts, what is your experience?

Councillor Watts: Despite the constrained times in which we live, local authorities are still doing an enormous amount to try to support and promote business. Taking my small north London borough as an example, clearly there is the part we are playing in the enormous infrastructure investments from Crossrail. We are looking at Crossrail 2, and both of them go through my borough.

We are a major investor in our own new housing, which in itself drives more customers to support business. There is critical infrastructure. We are doing a whole range of town centre support. We have town centre co-ordinators. We have a BID that we support very actively and we are trying to establish two others. We have a very active conversation with the commercial development sector. I can give you lots of examples—I won't—but a fundamental part of the activity of the local authority is encouraging the economic vitality of the area.

Q312 Colin Clark: I was briefly a councillor in my own authority in the north-east of Scotland. We have oil and gas. I said, "It must be great to be an authority that keeps building new commercial property, or encouraging the building of commercial property", but it was counterintuitive, because they did not necessarily get to keep the income. All they did was up their costs with more roads, more drainage and more rubbish collection. Is it actually working? Are areas being perversely incentivised? Do they just simply drive up their costs when they encourage investment?

Andy Street: No, not at all. This is why I call that the enterprise zone model.

Q313 Colin Clark: I was going to ask you about that. Just explain the enterprise zone.

Andy Street: Let's take that, then. That was made available by the Government in 2012, I think, and I think there were 31 of them across the country. The principle was two things coming together: exemption from business rates for a period and swift planning decisions. They have been used, certainly in the West Midlands, to drive strategic investments.

As a consequence, the economy has definitely grown around those, and the upside for the local authority is income that can then be used for further investment. There is an investment plan that comes on the back of it and hundreds of millions of pounds of investment are generated through it, because the business rates do not go to central funds, but are reinvested in new projects. That is a model that is working to drive investment. Of course, the other side, if you believe the long-term piece, is better economic outcomes and less pressure on some public services.



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Councillor Watts: I think in areas like my own and Andy's where we are seeing high proportions of business rate retained, there is a clear incentive for local authorities to drive growth, because we get to keep a large proportion of the extra business rates that that generates. Going back to the earlier conversation we had about permitted development rights, the other things that extra growth generates are more things like infrastructure levies and stuff like that.

Those are very important for funding schools, health centres, broadband and wi-fi, and all the other things that are essential enablers of growth. Hence our worry about things like permitted developments sitting outside the planning system, so we lose out on all that extra funding and we are closer to a position where we are disincentivised from having growth, because we are not getting the necessary infrastructure funding to support it.

Q314 **Colin Clark:** Mr Turner, a question for you in an experienced voice, again as a councillor: while business rates went up, they were not reinvested in the town. In two of my local towns, this is going on now—they have seen higher business rates, but not investment in the towns.

Professor Turner: That is probably right. BIDs on the whole see business rates going up, and they don't see them coming back to their particular areas. Remember, a BID is a very small subsection of a local authority: 400 or 500 businesses coming together.

Local authorities—because business rates are now quite a high proportion, with a decent amount of money and mostly 50% being retained—are now getting very excited about stimulating businesses in district council areas, which is what I am working with. Ironically, that is often not in the areas where the BIDs are, but in new development zones or new parts of the district.

On the other hand, business on the whole is always good. Therefore, although it might not come back directly to the BID, it is good to see local authorities getting energetically involved in business improvement in one sense or another. It would be nice to see a bit more coming back into some of the existing business areas, particularly the high streets and so on.

Q315 **Colin Clark:** Something doesn't quite add up about that. There is no taxation without representation, and I find it difficult to understand how in a BID situation, where although effectively business rates are pushed up, they don't see the money reinvested—

Professor Turner: Hang on—remember that the BID itself has a huge impact on the community. If a BID pulls in £500,000, it is spent exactly on that BID area, so the BID is a hugely successful model, and businesses like it. BIDs have also been quite good at explaining to businesses how the business rate model works in general, so there is most certainly more information going backwards and forwards with businesses.



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Remember that businesses want hospitals and schools, because they need their workforce to come in, to be looked after by hospitals and schools. Business people on the whole are sensible—they know that someone has to pay those bills—but they just want to have a sense, perhaps, of greater fairness in the process.

- Q316 **Catherine McKinnell:** Mr Turner, in the submission that British BIDs made to this inquiry, there is a proposal to devolve the Valuation Office Agency into agencies. What do you mean by such devolution? How would it make the business rate system more responsive and flexible, which is what you have said you are looking for?

Professor Turner: We have done some work in, for example, Winchester district council, which I am quite involved with, and we cannot understand why in some parts of the district the business rates have gone up. Retail, for example, has gone up by 12.3%, and offices have gone down by 0.2%. It seems odd. We cannot understand it. We cannot have a conversation with someone to ask why this is happening.

We hear anecdotes about pubs whose business rates have gone up dramatically—by 130% or 140% for one particular pub, which she closed because she could not afford that—while at another pub that does not happen. There is no sense of a relationship between the rateable system, the valuation authority and the appeals system, and what is happening at the grassroots, on the ground. We would just like that link to be brought back, if possible.

- Q317 **Catherine McKinnell:** So it is more to do with having someone based locally whom you can engage with and—

Professor Turner: And have a sensible conversation with, yes.

- Q318 **Catherine McKinnell:** Would there not be an issue were different regional officers to apply different approaches to valuation and had their own independent methodology? Is that the thinking, or is it literally to do with having a physical base you can communicate with and contact, or that they have some autonomy to operate independently?

Professor Turner: Perhaps a bit of all of that. I think that there is a real sense that the national system ain't working—there seems to be no rhyme or reason why some areas of the country have gone down quite dramatically and others have gone up quite dramatically. There seems to be a bit of a disconnect between real rental values and business rates. There most certainly seem to be disconnects between the sorts of businesses. It is interesting that most of our town centres that are being revitalised are not being revitalised through retail; they are being revitalised through service industries or a blend of other sorts of things that are emerging and coming out. There is growth in, for example, tattoo parlours and nail parlours, and a rating system that is rapidly reflective of that. We believe in having a more local valuation system where you can talk to people and have sensible conversations, which, anecdotally, from talking to colleagues, is what it used to be like. There is always a great golden age, but it was like that once. There were grown-up conversations



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between a local authority and a business and the rates people, and that seems to have been severed.

- Q319 **Catherine McKinnell:** Okay. Presumably, though, you would not be suggesting that we should no longer maintain period-neutral revenue re-evaluation, and that they should be neutral over the period. Presumably, if we are going to devolve it regionally, there still has to be a national approach to arriving at a neutral revenue evaluation over the period.

Professor Turner: I am never quite sure what neutrality means. There will be bits of the country that are poorer than others and bits that are richer than others. If you keep it completely neutral for ever and a day, it will never work out. Somewhere there has to be a bit more locality involvement. Businesses do not mind paying a bit more to get more stuff in their communities. If they were bigger communities with districts coming together, which is happening most certainly, you could have a model that is really quite interesting, and you could have enterprise zones coming about and being shared, and you could have high streets—

- Q320 **Catherine McKinnell:** Which brings us to the more local ability to raise revenue that could potentially achieve that. In Arup's report for the New West End Company, they also suggested devolution of VOA offices, and they think it should be easily implementable at local level with, as they say, "governance, funding and accountability structures already in place". Is that something that you would agree with, Councillor Watts?

Councillor Watts: Not necessarily. I am not sure the funding is already in place. Like any new burden, we would need commensurate funding that would go with that if we were to take on those duties. I do not see a problem in principle with funding being determined locally. In the end, local authorities are probably the public bodies that know their own areas best, but you are starting to get into fiddling around with bits of the system, and that leads to the question about whether there is a need for wider reform. Are we saying that, although local authorities get to value that, it would be revenue neutral within their area? Islington, for example, or Newcastle or wherever, has a particular figure that they need to get to in those valuations, because that would then start to feel weird. Effectively, are we then overvaluing property to the north or south of our borough?

Without compensating funding, we would be volunteering for the very difficult job of revaluing all of our properties and coming up with a figure that a lot of our businesses would not be happy with and would then appeal. The risk is that you get back into a bigger appeal risk and not a smaller appeal risk, and all of the appeals sitting with us. So you play around with this at your peril because there is the risk that you start getting into the need for a much bigger set of reforms on the basis of all of that, even though I am instinctively uncomfortable with a single national agency sitting as part of HMRC making millions of individual decisions that have profound impacts on individual companies.



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Andy Street: Can I be slightly cheeky? I just do not think that that is the core issue. You are talking about reform of “how”, and I am sure it could be improved. The real question is the one that Colin Clark got to earlier about aligning incentives with driving local outcomes. That is where the debate has to be. Then you come straight to, “Is the current operation of business rates actually doing that?” I am a fervent believer that some form of retention of business taxation is right, because that definitely aligns incentives. Frankly, if an individual local authority or combined authority wants to do a local relief, so be it. That is the enterprise zone model. That is the nub of it. It is not about how it is actually administered, excepting the previous conversations that there is clearly a failure of the system at the moment because there is this big delay.

Q321 **Catherine McKinnell:** It is not cheeky at all. I am only putting back to you the evidence that we have received from the panel. One of the queries over some of the suggestions that have been made is whether they are in fact the answer, so that is very helpful.

Andy Street: Thank you. That’s fair.

Q322 **Catherine McKinnell:** I guess one of the other issues is about localising valuations. There is a risk of potentially politicising those sorts of decisions in a way that is counterproductive for business growth, as Councillor Watts intimated, in terms of the local decision-making framework.

Councillor Watts: There is a risk of the perception of politicisation, even if that isn’t what is going on.

Q323 **Catherine McKinnell:** But the Local Government Association is calling for flexibility to set a multiplier above and below the nationally set multiplier. In terms of a potential solution, that is something that is being called for. One of the questions that automatically springs to mind for me, as an MP from Newcastle, relates to the current strain that local authorities are under and the continued austerity that is having to be managed within local authority budgets. Is that a realistic solution to the current situation? Are we really going to be setting lower multipliers, and who is going to have the ability to do that?

Councillor Watts: I think that is an argument about the principles of some sort of local devolution and locally elected people being more responsible for taxation levels in their area. That is an in-principle argument. The reality is that in the current financial situation, not many councils will be doing that. If they are, they will be doing it in very specific areas. It would be quite a brave council—one that had taken a very clear political direction—that would significantly cut tax in their area and take a compensating risk on business activity growing to compensate for the loss of revenue. I would very much argue that that is merely one of a whole range of factors that influence investment decisions. On its own, it probably isn’t going to make the difference.

Q324 **Catherine McKinnell:** Something else I was going to ask is, how important is this, in terms of the decision-making framework, compared



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with issues such as skills and other incentives in the local mix? Where would you put business rate incentivisation, in terms of incentivising investment, compared with other factors?

Councillor Watts: Businesses tell us that what most attracts them is high-quality people, regardless of the local rates and rents. Most businesses that I speak to regard rates and rents as a cost. Areas like mine are very bothered about the rate at which they are increasing, because of the relative growth of property values in our local area. The risk is that individual local authorities start to take risks in introducing local reliefs without effectively having that offsetting growth in business activity that replaces the revenue they would lose, because they don't have control over the other things they need as part of a wider devolution settlement, like the skills system, wider infrastructure investment, public transport investment and a whole range of other stuff. Actually, those things are just as important, if not more important, in driving business decisions.

Andy Street: The nuance is that it depends on the sector and the size of the business that you talk to. As was said earlier, the business rates percentage of costs is very different in different sectors. If you are a financial services business in the centre of Birmingham, the overwhelmingly important issue is, "Where is the supply of the right talent that can make me compete with the best in New York?" That is what we talk to HSBC about. If you are a small retailer in the centre of Walsall, where the flow of customers is a real challenge, your business rates bill is a huge issue. Although I am not here to defend the retail sector, where this really bites is in the demise of our town centres.

Q325 **Catherine McKinnell:** My final point is that there seems to be a trade-off between localisation of decision making, which there seems to be a desire for, and the reality that that may involve greater differentiation between the ability to fund local services, and how we resolve that. The IFS have suggested that we may need to accept greater variation in the delivery of services in order to increase the level of local decision making and accountability. Is that something you are comfortable with as a concept? Where would your preference lie, in terms of local accountability?

Andy Street: As was said earlier, that debate is coming down the tracks. It has to be addressed in the comprehensive spending review, in terms of the funding of local authorities, irrespective of the debate about business rates. It must be possible to address that total issue about long-term sustainable funding of local authorities at the same time as putting local incentivisation back on the table in line with the principle of devolution. I would naturally tend to that, maybe because I am conscious that I represent a region of the country that has had a tough time economically and is bouncing back, and where incentivisation is working for us, but I am also conscious that there is a national debate about making sure that the weaker areas do not suffer from that.

Councillor Watts: There are two separate issues. One is the totality of the local government funding system, which has this £8-billion black hole



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by '24-'25, just to keep us where we are now at a level of services that many of our constituents are already unhappy with. There is that very big hole that the spending review absolutely needs to address. There is also a somewhat different conversation about whether there are some local flexibilities that should be applied that allow local authorities, Mayors and other locally elected representatives more freedom to shape the economy of their local area. I do not want to take away from the argument that, overall, local government is horribly underfunded and needs that £8 billion of extra investment in the spending review, but at the same time, as a democrat, I think that local authorities should have more powers to shape their local areas, not less.

Catherine McKinnell: It sounds a bit cake and eat it.

Q326 **Kevin Hollinrake:** Richard, you said that your local council does not provide any discretionary relief to speak of, and also that any council now that did an enterprise zone, for example, that it had to fund itself, would be a very brave council. If the decision making around reliefs was handed back to local authorities, because of the pressure on spending, is it not the reality that local authorities would not provide them?

Councillor Watts: No, because we are potentially talking about quite a lot of money in the national relief systems. There are arguments about how a relief system is run—for example, the charitable relief system, as it works at the moment. We all support the work of charities and no one is questioning the value that charities provide for the local area, but it is distorting of high streets that certain shops get an 80% business rate discount when their next-door commercial operators do not. Clearly, that is having an impact on high streets across the country, if one looks at them. There is a thing about how some of those national relief systems—

Q327 **Kevin Hollinrake:** You could argue the same about small business rates relief and most of the reliefs, mandatory or not. The point is, because of the pressure on spending, would it not be easier, rather than help a few businesses in relative terms, to help the vast majority of the population that you serve with services? So you would probably say, "Actually, we can't afford those reliefs any more".

Councillor Watts: I can see your point, but it is difficult to argue how local authorities would respond in different circumstances. To a degree, as a localist, I am persistently trying to make the argument that there should be some sort of local decision making about that, and that people's votes in local elections should mean something, and I think there is, in that sense. For this to become part of a legitimate local democratic discussion feels healthy.

Q328 **Wes Streeting:** Good afternoon. I want to pick up the proposal from London Councils and others, which have asked for London's rate system to be decoupled from the rest of the country. Councillor Watts, can I begin with you and ask you to set out for the Committee what you see as the advantages and disadvantages of that?



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Councillor Watts: To be clear about hats, I am speaking on behalf of the LGA, as opposed to London Councils. To put it into an Islington-London perspective for a second, the issue is that there is broadly an £800-million gap in the amount that London raises for a national system that is redistributed to other bits of the country under the current system. I do not think there is anyone who would argue against a system where business rates from economically more successful areas are redistributed; no one is arguing that we should get rid of that kind of national redistribution system. However, many businesses in high-growth areas such as London feel doubly hit by rate and rent growth, and feel strongly that they are now paying bills that have grown enormously over the last few years and do not relate back to any fundamental about their business. As part of a regional devolution argument, under successive Mayors of different parties, London has shown itself to be an enormous economic success the more power it has taken. What London Councils is largely arguing for at the moment is to keep London's money in London with regard to actually having the freedom to fund the big infrastructure projects that London needs, such as Crossrail 2, with that more local funding pot.

Q329 **Wes Streeting:** Do you see a tension with your LGA hat on?

Councillor Watts: Not as long as you keep that system of national redistribution. Often, there is a mistake in thinking that calling for more localisation of business rates is moving away from needs funding, and it is not, because of that system of redistribution.

Q330 **Wes Streeting:** Seeking views from the rest of the panel—maybe beginning with you, Mr Mayor.

Andy Street: I have a conflict here. As I have said earlier, I agree with the principle of retention, but we have to be really honest that we cannot have an economy in the UK that is as dependent on London as it is at the moment. One of the reasons why you have seen the performance in London that you have seen is it has had a hugely disproportionate amount of the investment in the UK over the past 50 years, and I cannot represent my people and, frankly, common sense and intellect just by allowing that to continue. There does have to be an element of redistribution to drive the economic performance, not just of Birmingham and Manchester, but also of Scotland and Wales.

The reason for doing that is the UK will be better in total at the end of that process, and what the London argument—

Chair: I'll allow one more—

Andy Street: Allow me one more sentence, which is deliberately provocative. What the London argument slightly is at the moment is that we want to pull up the drawbridge around our own castle after we have had this hugely disproportionate element of public expenditure and investment. That is not right.



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Councillor Watts: To a degree, that misunderstands the London argument. I completely accept that it is in London's argument for the rest of the country to get major infrastructure funding; I do not think it does my borough or the rest of my city any good at all for our economy to overheat at the rate it is doing, because of the agglomeration effects of the London economy at the expense of the rest of the UK. I would much prefer that there was a bit of heat taken out of the housing market or the business market in my area that might make housing a bit more affordable for many of my residents, because, actually, other areas of the country have the economic vitality. I do not think there is the "London versus the rest of the country" argument as portrayed, because we all accept that the nation needs to be successful as a whole.

What I do think, though, is that London is growing enormously fast. It does need major infrastructure investment like Crossrail 2, but London should have the means to pay for that itself, rather than rely on Treasury infrastructure. That does mean, effectively, being more creative about finding ways of raising billions of pounds for major infrastructure projects locally. If it works in London, that is something that should be applied to other bits of the country as well—for example, to fund the massive improvements in northern rail services that are so clearly needed.

Q331 **Wes Streeting:** I think we can find consensus in the analysis that says that London is overheating and we need a rebalancing of the UK economy and investment in other parts of the country. I should probably just be clear about my own hats as a London MP, former deputy leader of a London borough, and vice-president of the Local Government Association. I have some skin in the game as well.

Chair: You are outnumbered by the non-London MPs, though.

Wes Streeting: It is just the case, isn't it? London is often under-represented in all of this. No, it is a serious point, and the point about overheating is one that my constituents in Greater London will talk about in terms of infrastructure, housing pressures, public services, just as much as inner London. I think they actually share the frustration of many of your constituents. Having found consensus that there is a need for the rebalancing, is there consensus on the specific proposal of decoupling the system of London's rates from the rest of the country, in terms of how we look at valuation and the advantages that might bring for other parts of the country?

Andy Street: If that means retaining everything in London, I do not think there is consensus on that.

Q332 **Wes Streeting:** We will turn to Chris and British BIDs shortly, but the argument seems to be that decoupling London from the rest of England would prevent distortions of national valuations. From that perspective, and putting to one side the issue of retention, in terms of valuations, is there an issue here?

Andy Street: You are talking about, for example, the multiplier.

Wes Streeting: Yes.

Andy Street: Right, sorry. That is a very different question. If the issue is the multiplier calculation of one England-wide figure, I would definitely say there is an advantage of greater regional variation in that, because the economy in Middlesbrough is not the same as the economy in Westminster.

Q333 **Wes Streeting:** I have already invoked your written evidence, Professor Turner, so let us bring you in. What do you see as the advantages and disadvantages of the proposal?

Professor Turner: You probably got from my comments a belief in localisation; a belief in local communities and local businesses having a system that reflects their needs. I think 25% of all BIDs are in London, but interestingly they are essentially city things. Lots of BIDs are in Birmingham, Leeds and Manchester. There is a whole group of BIDs in small market towns.

The worry we have in the BIDs community is about who is loving and nurturing those small business areas that cannot generate a BID, and that do not have a rateable value big enough to bring in money. We run a loan fund for the Ministry to try to help some of those communities. But there is no denying that there has to be a more national view of how we look after the business communities in general across the country.

When I talk about decoupling, therefore, I do not necessarily want London to keep all its loot. I am looking at a model that says, "Let's make sure that the rating system is more localised and recognise the need for local businesses to have different sorts of models." My view is that there should be a multiplier that is not this national fiscally neutral figure because, if I am honest, I do not think fiscal neutrality is possible.

Q334 **Wes Streeting:** There is a danger of consensus breaking out. I will just bring in Mr McDonald and then come back to that.

Ojay McDonald: I hate to be part of that, but I will agree with Chris's last statement. The issue that we have around the business rates system is fiscal neutrality. That is the core of the problem. In terms of this London versus the rest argument, ATCM is a national organisation. I hear all the time those comments from both sides of my members, which you have just heard from Andy and Richard, so it is something that I tend to stay out of.

The tensions are there and they are obvious. We have worked with our London members. One of the biggest challenges is that overheating economy: population growth, enough space for housing and businesses, and ensuring that we have the right investment in transport infrastructure. The same goes across the country. When you only have a certain amount of money to go around everywhere, it is about that fair distribution. You hear it from both sides, so we don't take a specific view, because we know that there is a huge tension there between London and the rest.



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Q335 **Wes Streeting:** Just to demonstrate my London bias, Councillor Watts, would you like to have the final word on this?

Councillor Watts: Thank you very much—I am very grateful as the vice-president that you would do that. The other thing I will say in defence of London when we are talking about all of this is that the gap is actually just under £800 million, in a £30 billion national system, so the discrepancy is a lot smaller than people think.

Lewisham Council, from the figures I recall, actually has the lowest ratio of business rate revenue to spending in the country, whereas Westminster has the highest. London retains immense deprivation. Six of the top 10 boroughs with the highest level of child poverty are London boroughs and 47% of kids in my borough live in poverty after housing costs are taken into account. We should not forget that the discrepancy between London and the rest of the country is smaller than imagined.

Q336 **Wes Streeting:** What about inner London and outer London? That skews the picture when talking about London. The picture in Redbridge will be very different from the picture in the two Cities, or in Camden or even Islington.

Councillor Watts: I agree to a degree, but actually when it comes to those enormous revenue rates in London there are three boroughs: Westminster, the City and Camden. Some of the other inner London boroughs such as Islington are significant to a degree, but it is only little bits of Islington, Lambeth, Southwark and some of the others that have that real focus of central activities zone activities. Islington only very recently became net neutral on the amount of business rates we contribute to the national pot. Again, this is a very specific issue about two or three local authorities, rather than it being a sectoral thing.

Wes Streeting: I apologise for being so parochial at the end.

Q337 **Chair:** I have two final questions. Councillor Watts, the LGA's evidence refers to concerns about the amount of business rates avoidance. In February 2015 the LGA estimated known business rates avoidance to be £230 million per annum. I think the LGA also highlights concerns about splitting up one or more hereditaments to benefit from small business rate relief. My broader question—again, if you want to write to us with an LGA hat on, you are welcome to do so—is this: what role does local government have in raising these sorts of concerns with the VOA?

Councillor Watts: I think we do have a role. We set out a range of things in our evidence—for example, the emergency shelters, which I mentioned earlier, and the splitting up of properties, moving what may conceivably be empty boxes in and out of properties once every six weeks. Actually, some of the reforms recently introduced by the Welsh Government have been quite helpful in trying to reduce that. I will put some detail about that in writing to you, but there are some particular challenges about that which local government is not well equipped to identify, largely because, as I said to Alison earlier, a lot of what we do on business rates is really



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such day-to-day business that we do not have fraud teams out there investigating.

- Q338 **Chair:** Professor Turner or Mr McDonald, do you hear of people who are so concerned about the amount of rates they are being asked to pay that they will try to do something that might be within the letter of the law but is not within its spirit?

Professor Turner: Yes and no. I think sometimes we have to recognise that these might be the sensible outcomes of what you might call the animal spirits of the entrepreneur. You have got a big office block with very large rates and the owner decides to turn it into multiple business unit occupancy, and suddenly there are 25 small units in the middle of the town. That is absolutely what is needed, because it allows businesses to start. Sometimes we have to recognise that these natural finesses are actually very good things.

Chair: Absolutely.

Professor Turner: And on the whole, the move towards residential has not been a terribly good story in some places, but in others it has put people back on to the high street, living above shops that were dead and defunct properties—

- Q339 **Chair:** No, I am talking about specific business rates avoidance, where people do things that mean they are eligible for a relief that might not—

Professor Turner: I suspect that each BID could identify a couple of businesses where funny things are happening, but generally that is all it is.

- Q340 **Chair:** Mr McDonald, do you agree?

Ojay McDonald: Yes. I do not know how widespread they are, but there definitely have been instances where some people have gone to some lengths to avoid paying business rates. That was probably made worse when business rates relief for empty properties was virtually removed a few years ago. We heard of some instances where property owners unable to find someone to come in and take up their property, leaving them with a rates bill, were happy to take the roof off their property and ensure that it did not appear on the ratings list at all. That is a very extreme—and I think rare—case, but you do hear of these instances sometimes.

Professor Turner: Anecdotally, quite rare.

- Q341 **Chair:** I have one final question for the panel. We have sort of explored this, but looking forward in terms of where you would go if you were able to redesign the system or come up with a new one, is there anything we have not picked up this afternoon that you want to put on the table?

Andy Street: I would like to put one thing on the table. It is very interesting that we spoke a lot about online in the first 10 minutes of the meeting, and we have spoken almost nothing about it since. That is strange, given that it is one of the diagnoses of the high street dilemma.

Chair: Given all the evidence, yes.



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Andy Street: Yes. Now, you have probably taken lots of evidence from other people in this area, so I would put just one thing on the table. If one looks at what has already been done by the Chancellor, my view would be that it is a good start—

Chair: The digital sales tax?

Andy Street: The digital sales tax, indeed. I have no authority on behalf of the seven local authorities in the West Midlands to say this—this is a personal view—but it is really only the beginning of a much bigger issue. With the sales tax and the tax on digital advertising that there could be, there is still a huge well of untapped potential. My own view is that to do some of the things that we have talked about this afternoon, we will need to go back to that. I know that is very unspecific, but it is interesting that exactly how that could be done has not got more airtime, because the underlying fundamental point is where we started. The current business rates are taxing a particular way in which businesses make profit, and it does not reflect how modern businesses trade. Before we conclude, I urge us to think back to that as well.

Chair: Thank you. Councillor Watts, do you anything to add?

Councillor Watts: I would agree with that. In terms of the core principles of a design of a system, we think a property tax is right because of just how difficult it is to find anything else to tax in the business world. There should be more local flexibility over multipliers and, as a result, the question of how you sort out the valuation system is incredibly important as well. However, at heart Andy is right; there are profound implications for the national taxation system for personal as well as business taxes about a shift to a more virtual world. We welcome the digital sales tax as the Government putting their toe in the water on this stuff, but if we are to have any sensible projection of how our economy and society develops over the next two generations, getting to grips with taxation around the digital world feels fundamental to the maintenance of public services, and not just local government.

Professor Turner: I think that is right, but I have the nervousness of a lot of other businesses. A lot of bricks and mortar businesses are getting very involved with digital, and I don't want them to be clobbered twice. A slightly bigger issue for me is about how big transnational conglomerates get taxed in general. They need to start paying their dues. A lot of small businesses that are paying their dues because they do not have the money to escape them feel very angry about people not paying their dues.

Chair: You are speaking about fairness.

Professor Turner: Yes, that is absolutely right—a sense of equity in the system. The other point that I raised at the beginning is the slight sense that if businesses are taking the predominant income stream to keep local authorities and bodies going, individuals should also look at a responsibility for that. I am nervous that we have not looked at the residential argument since 1991, and that people are actually being under-

taxed. We hear stories about people buying properties in the middle of one of my towns and they would pay 10 times that tax if they moved and lived in New York. In a sense that doesn't feel right either. Those would be my two steers.

Ojay McDonald: There are a lot of sensible comments there, and the big thing is how the economy is transforming. The digital economy means that we have a different relationship to commercial property, which means that we need to rethink our entire business tax system and probably go even wider than that, as you just heard. Andy's point about us remembering the role of online will be critical to this whole debate, to ensure that we have a system that is sustainable. Ultimately—I feel Richard twitching nervously in his chair—to ensure that we have a sustainable system, I am happy to retain a property tax. I think that's important, but I don't think it is sustainable for it to be at the levels it is at.

Ideally, this is about reducing the amount of liability for having property, and looking at additional new potential sources of revenue, and using them to offset what we lose in business rates. Ultimately, some of those new revenue streams such as a digital services tax—that is just the start and probably doesn't do enough, and we need to think of other things—must find their way into local government coffers, as well as other public services, so that we can fund them properly.

Q342 **Kevin Hollinrake:** On the digital services tax—that is nothing to do with business rates; it is to do with corporation tax. One thing you proposed, Andy, was a kind of flat tax for businesses to include business rates. Isn't that just another complexity? Will you have a threshold such as for VAT and that complexity? We have a turnover tax already that operates—it's called VAT. Why not simply increase that?

Andy Street: That proposal was the "Think Small" report, which was led by Nick King. It was all driven by simplification and by the clarion call that I get in my ear from local businesses, which are dealing with five or six different ways of paying tax and would like to pay just one. That was a different thing, but it is an important spirit of showing entrepreneurial simplicity.

Q343 **Kevin Hollinrake:** What about increasing VAT?

Andy Street: Most entrepreneurs who contributed to that report would say that if there was one measure and that was it, then fair enough. My personal view is that you shouldn't increase VAT. It depends what you put it on, but it is not always progressive taxation.

Chair: I think those proposals actually included VAT. Thank you. Preparing for an evidence session takes time, and we are grateful to you for your evidence and for the expertise you have shared with us this afternoon. Thank you all very much.