LEVELLING THE BAR

REFORMING OUTDATED BUSINESS RATES FOR PUBS' SURVIVAL

MARCH 2022

ALL-PARTY PARLIAMENTARY BEER GROUP

EXECUTIVE SUMMARY

> *"Let me start by saying that to me pubs are everything – they are the heart and soul of the community, be that in towns, cities, or the smallest hamlet. They are integral to this wonderful country and for centuries have been the hub of everything we hold dear."*
> Tom Kerridge

Pubs are woven into the social fabric of the country. Their bricks and mortar stand testament to the continuing need of us humans for social interaction. However, they are paying richly for their continuing presence in our communities. They pay a higher percentage of their turnover in business rates than other sectors, penalised by an outdated tax regime that hasn't kept pace with the economic reality of businesses moving online. These iniquities have been amplified by Covid.

A fairer tax is needed. Pubs contribute 2.5% of the total tax collected in business rates while they generate less than half a percent of rateable turnover - an overpayment which equates to £570 million every year. Business rates are one of the highest overheads pubs face, year in year out, regardless of how much trade they pull in.

The business rates model is outdated and the above inflationary 'multiplier' which determines the amount paid is extortionate. Furthermore, within this the method used to assess individual pubs' rateable values is not working. Pubs can be faced with 300% increases in rateable value, wiping out profits overnight, for apparently no reason other than having increased their turnover. There is an astonishing lack of transparency for operators in how such significant bills are calculated, making planning for investment manifestly difficult. Rate relief is currently shielding many of the most marginal pubs from the full impact, but this addresses only some of the symptoms and none of the underlying cause. This issue needs urgent Government attention, far beyond the aspects currently under review in the consultation on technical aspects of rates and far more pressingly than suggested by the 'early-stage' consultation on an on-line sales tax. Until Government determines a more equitable solution, rate relief must be extended.

As this inquiry has heard, pubs have had a turbulent two years economically, all the while supporting individuals and communities through some of the most trying times they've faced socially. As economies and communities recover, we ask Government to consider the social and community value added by pubs, as much as their economic value. We ask policy makers to understand the extra-ordinary contribution pubs make to community well-being and the opportunities they present for investing in skills, trades, people and places as part of the country's recovery.

It's time to call time on an outdated tax, and we urge the Government to act now. Pending the substantial reforms required, immediate and interim action is needed to introduce a discounted, pub-specific, rates multiplier, to acknowledge pubs' community contribution and to stimulate their investment in the social fabric of the country. We also endorse wider calls for the threshold for small business rate relief to be increased as this would benefit community pubs, in particular.

As a Westminster All-Party Parliamentary group our inquiry has limited its scope to business rates in England, but we hope our findings and recommendations will be of interest to colleagues in Holyrood, Cardiff and Stormont.

TABLE OF CONTENTS

INTRODUCTION

1 Business rates are a substantial fixed cost for pubs. They are payable from day one of occupation, regardless of trading. The rateable values from which their rates bills come are often incomprehensively assessed, and subject to business-threatening increases that are difficult and time-consuming to appeal. Above all, business rates are perceived as a deeply unfair and regressive tax on the bricks and mortar that pubs don't have the flexibility to operate without. The net effect is that a sector that generates approximately half a percent of total business turnover is paying 2.5% of the total business rates collected by the Treasury.

2 The Covid pandemic has escalated the need for reform. High streets across the country have suffered as businesses have moved online, taking with them the footfall that sustained the businesses that used to work symbiotically alongside them. Beyond this, pubs have faced extraordinary disruption to their business models since March 2020. Government aid, in the form of small business reliefs, Covid grants, rate reliefs and VAT cuts have been a lifesaver for many. But many have closed for good. For continuing operations, cash reserves have either disappeared or are severely depleted, with Covid loans now awaiting repayment.

3 Meanwhile, licensees across the country have gone above and beyond in responding to their local community needs. 'Covid champions' have been lauded for stepping in with meal deliveries, pop up shops and other services; less visibly, but wholly critically, with restrictions lifted they've also provided 'a place to be' for some of the increasingly isolated. At a time when health professionals are warning of an imminent mental health pandemic, pubs are an established front line of defence against loneliness.

4 Against this backdrop, the APPBG decided to make pubs' business rates the explicit focus of an inquiry. On 1st February 2022, it called for evidence:

- To understand: the impact of business rates on pubs' operations in England and the efficacy of the valuation process and appeals system; the fairness of business rates on a sectoral basis; and the impact of the Government's current proposals for reform.

- And to explore: hospitality as a catalyst for inward investment, high street regeneration and employment and skills growth; and options for business rates reform to recognise this and pubs' wider contribution locally and nationally, including rebalancing the burden of business rates between the digital and physical economies.

5 More than 30 responses were received, from individual licensees, trade associations and multiple operators. A Zoom meeting was then held on 23rd February, chaired by APPBG chair Mike Wood MP, where the parliamentary panel heard evidence from:

- George Barnes, Property and Services Director, Shepherd Neame
- Stephen Patterson, Chief Executive, Newcastle BID
- Alan Colston, Chief Valuer, Valuation Office Agency
- Jonathan Werran, Chief Executive, Localis
- James Baer, MD, Amber Taverns
- Roxane Marjoram, Co-owner, Gusto Pronto
- Cassie Davison, Licensee, Gate Hangs Well

The Parliamentarians on the panel were:

- Mike Wood MP (Con, Dudley South), Chairman of the APPBG
- Chris Clarkson MP (Con, Heywood and Middleton)
- Daisy Cooper MP (Lib Dem, St Albans)
- Louie French MP (Con, Old Bexley and Sidcup)
- Jane Stevenson MP (Con, Wolverhampton North East)
- Esther McVey MP (Con, Tatton)
- Sheryll Murray MP (Con, South East Cornwall)
- Lord Bilimoria of Chelsea CBE DL (Crossbench)

The APPBG would like to thank all those who took the time and trouble to share their views. All evidence is available at www.beergroupinquiry.com.

WHAT'S THE PROBLEM?

Background

6 Business rates in England bring in about £25 billion every year to the Treasury. Pubs, in common with 2.1 million other businesses, are liable to pay a share of this – that share being determined by the rateable value attached to their properties by The Valuation Office Agency (VOA). The problem, as vociferously advocated by witnesses to this inquiry, is that the share is unfair: unfair in the overall burden paid by the sector and un-transparent in how it determines the share paid by individual pubs. We heard evidence that the current system is distorting competition and affecting viability, investment, livelihoods and communities. This report examines these issues in turn and looks at options for reform.

An unfair burden on bricks and mortar

"Across our estate we have a rateable value of just over £6.25m, meaning a theoretical payable exposure of over £3.1m, which seems excessive for a business with a turnover of £30.4m."

Wells and Co

7 Business rates come from a pre-digital age. They are a tax on the premises occupied by businesses. In this they have the attraction to tax collectors of being readily identifiable and hard to hide, and so provide an effective, efficient and stable way of collecting funds for the Treasury. The tax enables 98% receipts (down to 93% during Covid), and this reliability perhaps explains why increases have outstripped inflation since the current system came into force in 1990. However, none of this makes business rates a progressive, or fair, tax.

8 As businesses increasingly move online those that remain invested in physical premises are paying the cost. For any form of retail that relies on people passing by to make their everyday living, this makes for a double whammy of disadvantage: suffering from the reduced footfall brought about by business moving online while being taxed for retaining their own physical premises. Pubs exemplify this. The average rates bill paid by a pub equates to three percent of turnover, before other taxes are paid. Wells and Co told us that they have a nominal exposure of £3.1m in business rates on a turnover of £30.4m in 2021 (c10% in rates alone). In contrast, it was pointed out that in 2020 Amazon paid £492m in total direct tax, on a turnover of £20.63bn (c 2% in total tax)[1].

9 This tax inequity between the physical and digital economies has been acknowledged. The Government launched an early-stage consultation on the merits of an on-line sales tax in February 2022, having granted smaller businesses relief from business rates in 2005. But for the moment, the underlying problems remain. Business rates are a tax on physical property in a digital age. There are problems in making equitable assessments of their rateable value. And then there is distortion in the proportion of that rateable value that they must then pay each year, regardless of how they trade. This 'multiplier' has increased from 34.8p per £1 of RV in 1990/91 to 51.2p today (49.9p for smaller businesses under £51,000).

10 These problems have compounded to create some remarkable distortions. We were given an example of one post code in Birmingham, which has 22 rated business properties listed, of which only three pay business rates. One of these, a pub, now contributes 52% of the total rates collected. See Box A.

1 https://www.bbc.co.uk/news/business-58485816

Box A

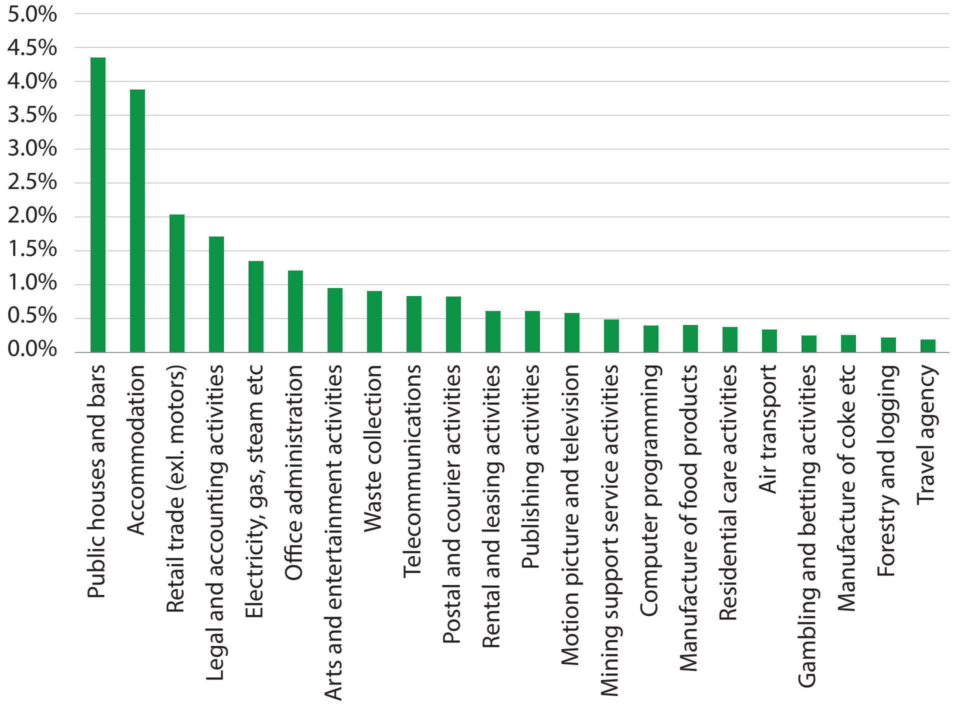
❝ It cannot be right that the pub pays 52% of the rates charged over 22 sites in the post code, based upon its turnover. ❞

Trust Inns have a pub, The Seven Stars, in Cape Hill Birmingham. It's one of the 22 properties rated for business rates within the post code (B66 4SG). However, only three of these properties pay rates as the rest are valued under the £12,000 RV threshold for relief. Two of these are banks, with RVs of £32,250 and £22,750, and the third is the pub, with an RV of £60,000. Trust Inns report: *"The Seven Stars is an example of a low margin, high-cost site, with large turnover but low profit [typical of deprived areas where prices are restricted and only increased turnover can generate sufficient profit to cover fixed and variable overheads]. It is the sole public house in the centre with the other two major sites closed for a number of years and converted to alternative use. However it pays more in rates than the two banks and all other retail premises in the post code combined."*

An unfair tax on pubs

11 The VOA told us that they currently have approximately 39,500 pubs in England on their valuation list. According to the British Beer and Pub Association (BBPA) these pubs contribute about 0.5% of total rateable turnover but pay some 2.5% of all rates. This equates to an overpayment of £570m every year. The last revaluation in 2017 saw pubs' rates rise by 14.6%, against a property average of 9.1%. Rates now represent the second or third highest fixed costs for pubs.

Proportion of turnover accounted for by business rates



Source: Oxford Economics, 2018, for BBPA

12 As the chart provided by the BPPA shows, pubs are overpaying as a sector. We sought to understand why and are grateful to Alan Colston of the VOA and George Barnes of Shepherd Neame for guiding us through the detail of pubs' valuations. Box B provides an outline of the process. In brief, it means that for pubs, the key element for assessment is the pub's 'Fair Maintainable Trade'; this isn't their actual turnover but the VOA's assessment of what a 'Reasonably Efficient Operator' should be able to achieve. For most other businesses (including competing retailers such as restaurants, off-licenses and supermarkets), the key element is the premises' square footage. A number of operators provided us with written examples of the impact of this different methodology, including: *"A real-life example of two pubs run by the same operator. They are both gastropubs but whilst one is classified and valued as a pub, the other appears on the VOA's rating list as a 'restaurant'. As far as any customer is concerned, they are indistinguishable from one another. They are located in the same part of the country, a few miles apart. Yet the business valued as a pub has a rateable value three times higher than its sister business, despite being slightly smaller."* The Bath Pub Company

13 It's a complicated process, and its lack of transparency is doing nothing to diminish perceptions that pubs are being arbitrarily and unfairly penalised. The pub operators giving oral evidence confirmed that they were far from clear about the calculations used to determine their rateable values. Roxane Marjoram recounted how her business had taken on a boarded-up pub and brought it into community life. Previously, the pub would have been a drain on community resource, taking up police time and adding little to neighbourhood amenity, but she saw its rates increase when she reopened. The rateable value then almost doubled from £48,000 to £81,000 in the 2017 revaluation.

14 Pubs may be mis-valued because they have been mis-classified – by location or by type – or because a fair assessment hasn't been made of their turnover (see paragraph 15 below). George Barnes told us that about 20% of Shepherd Neame's pubs have had valuations corrected on the current list, and provided examples of the different types of misclassification. Alan Colston explained that for operators to see the Fair Maintainable Trade figures they must first register on the VOA's Check and Challenge website. They must then prove their connection to the pub by providing the VOA with the required evidence. At this point, they can view the information the VOA holds for them, including the pub's Fair Maintainable Trade figures. These details are only available once the operator has proven their connection to the property. The VOA does not provide this detail publicly for reasons of commercial confidentiality. Operators do not need to submit a Check to access this information. **We find it remarkable that there is not a more transparent and accessible means of communicating to ratepayers how their bills have been determined.**

Box B

How pubs' rates are set

Rateable value (RV) is essentially intended to be equivalent to rental value, calculated at the valuation date. The VOA is currently compiling the new valuation list for 2023, determining the RV for around 42,500 pubs in England and Wales. The amount those pubs then pay in their rates bills depends on the percentage multiplier set by the Government.

....contd. overleaf

Pubs are individual and diverse, operating in different locations, out of very different buildings, offering myriad different services. It is not practicable to value them for rental purposes on a £ per square foot basis.

Instead, their rental value is derived from 'Fair Maintainable Trade'. This isn't their actual turnover but the VOA's assessment of what a 'Reasonably Efficient Operator' should be able to achieve, broken down into wet trade (drinks), dry trade (food) and letting accommodation. A percentage is then applied to each to these depending on their style of operation (eg, village pub or destination dining), and their location (eg High street or rural), with the VOA deriving these bandings from its guide to the 'Valuation of Public Houses'. This Guide is compiled with industry input. At the end of this process, there is a sense check: valuers are expected to 'stand back and look' to determine whether the final figure is sensible given the individual circumstances applying and the evidence provided (which may include the pub's actual trade and similar information available to the VOA for comparable pubs). The process is meant to ensure that two experienced licensed property valuers should, in most cases, produce outcomes where any differences are capable of being reconciled. The VOA provides extensive training to all of its licensed valuer assessors.

Pubs' turnover is the key variable element. This is inflated by VAT and excise duty, for which pubs have already been taxed. The VOA can award 'over-trading concessions, ie, the amount of additional value ascribed to the operator being more than 'reasonably efficient', or 'under-trading' for the reverse.

In common with all businesses, the intention is that pubs will be moving to a more frequent, three-yearly cycle of revaluations.

An arbitrary tax on business endeavour

> *"There is no parity between certain establishments with many falling into the category of being zero rated despite enjoying profitable income streams over other establishments."*
>
> Independent Shropshire operator

15 We received a plethora of evidence from pubs who believe they are 'over-trading'; their businesses apparently being penalised because their operators 'sweat their assets' more effectively than the VOA's assessors had seen fit to recognise. For example, the Red Lion & Sun, Highgate, whose licensee explained how he had worked to build up the business over 15 years, only to be hit by an increase in rateable value from £44,000 to £123,000 in 2017.

16 In theory, the valuation process outlined in Box B should mean that by applying the fair maintainable trade that would have been achieved by a reasonably efficient operator in a property of that type, two independent assessors would come to the same conclusion about the appropriate valuation. In practice, witnesses point to very different outcomes: for example, one village pub saw its rateable value increase 198% in 14 years to £59,000, far outstripping the rates paid by the other, larger, pub in the village rated at £28,000[2]. The implications are not just in terms of the rates bill. Other services such as Sky and BT Sport are levied according to rateable value. And thresholds for small business relief and the Covid-generated reliefs are also determined by the property's rateable value. Properties just above the rateable value threshold of £12,000 (for small business relief and so 0% paid) or £51,000 (for the 50% relief from April 2022) face a cliff edge in costs. There are also further implications for investment arising from the £110,000 cap on reliefs received from April, which will effectively limit any operator with combined pub rateable values above £215,000.

2 Evidence from The Jolly Cricketers, Seer Green

17 George Barnes explained that the magnitude of error in valuations which he had successfully challenged could have made all the difference to the viability of the pubs. Arbitrary revaluation can wipe out profits overnight. Stephen Patterson gave us one such example from the Newcastle BID, where a pub making a profit of £50,000 per annum faced an increased rates bill of £90,000 per annum.

18 Alan Colston explained that the VOA was unable to provide information on how often fair maintainable trade was adjusted to account for the over-trading of an efficient operator or the under-trading of an inefficient publican, as they do not hold this information. We are thus unable to comment whether assessors are not applying this provision, or not applying it consistently. **While this lack of transparency continues, we share concerns raised by many witnesses that the system may be valuing the business operating out of the premises, rather than the premises the business operates from. Transparency must be improved as a priority.**

An unchallenged tax?

19 Why aren't more valuations being challenged? A revised system of check, challenge and appeal was introduced in England in April 2017, with the objective of making the process more accessible. Alan Colston told us that around 3,200 of about 39,500 pubs on the VOA's valuation list for England had taken this up, with two thirds agreed at the challenge stage and fewer than 60 going to appeal. These figures exclude the challenges received related to the pandemic which have been dealt with by the Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Act 2021.

20 This relatively low rate of challenge could be because licensees are largely content with their valuations (or in the case of multiple operators, with the balance of valuations across their estates). Or there may be good reason why they go unchallenged. First, licensees may simply not have the time or expertise to consider whether a valuation is wrong, trusting in the system. Roxane Marjoram told us it hadn't occurred to her how inconsistent valuations might be until the pandemic struck, when she explored why pubs similar to hers in the locality were eligible for reliefs that she wasn't initially granted. Secondly, the delays and time involved may be off-putting. In written evidence, Dave Mountford provided an example of challenging an increase in rateable value from £8,400 to £33,000. It took three years to get this reduced to£15,500. Thirdly, the complexity may be daunting. The Bath Pub Company explained the difficulty in having to provide all information upfront that might be needed to challenge the assumptions made in the VOA's assessment. For example, how does one provide the detail to explain that: *"Great pub operations are the product of a high performing team, well designed systems and process all pulling in the same direction to create a fantastic customer experience and to maximise efficiencies".*

21 The next cycle of valuations is now underway. Alan Colston explained that publicans had been dramatically affected by the pandemic and the government's decision to have a Revaluation in 2023 using a valuation date of 1 April 2021 will mean that the pandemic will be reflected in the new Ratings Lists. In this, **we ask that considerably more information is made available to rate payers as part of their valuation, so there is time for them to check, and if necessary, challenge or appeal, before their first rates bill lands on their doormat.**

WHY DOES THIS MATTER?

Business rates are impacting viability

“There’s a massive storm looming for pubs.”

Roxane Marjoram (oral evidence)

22 The BBPA estimates that the pubs sector has shrunk by nearly 25% in 20 years and almost 800 pubs have shut for good in the last two years. The continuing viability of many others is in question. Some 80% of the UK’s pubs run as small businesses. The high fixed cost of rates disproportionately hits high turnover, low margin businesses. Many community pubs operate on weekly turnover of £3,000-£5,000, and margins that are slender at the best of times have now been thoroughly challenged by Covid. The BBPA’s evidence included assessment from Europe Economics that around 22,000 pubs could be at risk of failure if they are faced with the full cost of business rates once Covid reliefs end. This bleak picture was echoed in BII’s evidence, that one in ten of their members believe that their business is unviable: revenues were down between 20-40% in 2021, they are facing pandemic specific debt of £40,000, and one in two say that their viability depends on continued government support for the next 12 months.

23 We heard telling evidence from witnesses that the uncertainty of stop-start trading through the pandemic has thoroughly disrupted business, wiping out or severely reducing cash reserves. BII members report that for one in three, the money has run out - and for those that have any left, one in two has less than two months.

“The split of calls to our helpline used to be 40% emotional and 60% practical. In the last two years we’ve seen that flip and during 2021 almost 70% of calls were for emotional support.”

The Licensed Trade Charity

24 In common with other businesses, pubs are currently trading against a wall of inflationary pressures with forthcoming National Insurance increases and national minimum wage rises compounding the costs of rising fuel costs and everyday expense. This is then exacerbated for many pubs by fragile consumer confidence and being ‘last in line’ for their customers’ discretionary spend. Cassie Davison gave a vivid example of the immediacy of broader economic sentiment hitting turnover in real time, when her sales plummeted by 50% as Government advice was issued not to panic buy petrol.

25 In face of this, Covid relief measures including rate relief and VAT reduction were described to us as ‘lifesavers’, and welcomed alongside the proposed cut to draught duty (long advocated by this APPG) announced in the last Budget. **Until such time as a more equitable form of business rates taxation is established to balance the burden borne by physical premises, we urge Government to continue these reliefs and extend the scope of small business relief.** We heard suggestions for various thresholds – to £30,000 or £51,000 (at which level the vast majority of community pubs would be covered). James Baer pointed out to us that the £110,000 cap for businesses claiming reliefs from next year will hugely disadvantage entrepreneurial multiple licensees, so running counter to government initiatives to encourage their investment in less advantaged communities.

“Without the reduction of business rates during the pandemic we would not still be here! It was a deal breaker…. Sound dramatic? More dramatic - if we don’t get any further reduction for at least the rest of 2022 we won’t be here next year. We face that same fate if the costs keep rising.”

The Pig & Whistle, Wandsworth

Business rates are endangering investment

26 Pubs, like any other business, need confidence to invest. This isn't delivered if operators have little or no visibility of what the impact of their investment may be on their subsequent rates bills, nor if they're not granted the time to recoup lost trading before those bills hit. Cassie Davison, currently scoping investment in her pub, talked us through the decisions involved in balancing the costs of reducing trade in the short term against the period of trading needed to make good, emphasising the need for breathing space before being hit by higher rates. Stephen Patterson explained how high rateable values – exceeding rental values - were pricing out investment in Newcastle. **The Government's technical consultation on business rates proposes a 12 month period; witnesses were unanimous in agreeing this should be increased to two years**, and as George Barnes explained, transferable during that period to another occupier so as not to penalise pub companies that may have a change in occupier after making/contributing to the investment.

ENCOURAGING INVESTMENT IN HIGH STREETS, COMMUNITIES, SKILLS AND REGENERATION

> *"Pubs will be the last to recover from Covid, as we feel any uncertainty in the economy in real time. But we are also essential to that recovery."*
>
> Cassie Davison (oral evidence)

27 Pubs invest in skills as much as bricks and mortar. A disproportionate number (46%) of those working in pubs are under 25. Some will go on to make a career in the trade, quite literally from bar to boardroom, but for those who work for even a few weeks in a pub, they've learnt skills in teamwork, communication, punctuality, appearance, how to be social; skills useful to most other careers. Pubs also employ a disproportionate number of female, and part-time, staff. All in, pubs' jobs provide an invaluable building block for government policies banking on a skills-based recovery.

28 Pubs also invest in local trades. Our witnesses also told us how investment routinely involved local trades, as much as their purchasing involved local producers. This locality is intrinsic: part of their bond with their local community. They don't 'do' community as an afterthought; they are community. The case study in Box C from James Baer provides a vivid example of the wider benefits flowing from a community pub's investment in its community.

Box C

Investing in Communities

Hogarths (part of Amber Taverns) invested in a high street site in Rochdale vacated by the Royal Bank of Scotland. Following planning, licensing and listed building consents, £1m was invested in the refurbishment of the Grade II listed building, transforming a vandalised property into a beautiful pub providing 20 local jobs. Local trades employed in the process included surveyors, solicitors, architects, joiners, electricians, plasterers, decorators, plumbers, roofers, upholsterers and carpet fitters.

"The impact of Covid cannot be underestimated and it potentially could seriously undermine the £400m of investment going into the town centre… A sign of the confidence in the town centre was the investment by Hogarths. Food and drink are a key part of our culture and an increasingly important attraction for visitors… As we start to emerge into the Covid-19 recovery/transformational stages, one of our key drivers will be to reinvent and repurpose the town around its award-winning food and drink offer".

Paul Ambrose, Rochdale Town Centre Business Improvement District Manager

Before

After

29 Jonathan Werran, Chief Executive of Localis, explained the relevance of this 'foundational economy' and its pivotal significance for levelling up. Rising standards have to be built on a strong foundation, with a successful pubs sector part of the critical economic and social infrastructure that make the rest of everyday life possible. Jonathan spoke of the importance of 'pride of place', creating communities people want to be a part of and invested in. Stephen Patterson explained this in the context of Newcastle BID – where having the highest concentration of independent retailers per capita outside London makes for a vibrant city, driving demand for office space and homes, making it a 'place to be'.

30 Our witnesses provided vibrant testimony of what this community infrastructure means in practice. Pubs have to provide a compelling reason for people to leave their front room. For many, it's the social spaces, places where they can go, not be judged so long as they behave, and either build a circle of friends or come with them – for a special occasion or a catch up. There are increasingly few such public spaces available. As Jonathan Werran summarised, they're a social nexus, critical to community resilience: *"where there's a community there's a pub, and vice versa".*

31 The pandemic demonstrated the value of pubs economically and socially. We were provided with multiple examples of pubs' extra-ordinary outreach during Covid, be it knocking on windows to check locals were ok, delivering meals, or setting up shops. What's within the bricks and mortar in their midst clearly makes a difference to a community and we asked how this social value could be recognised beyond the current reliefs available for providing specific community assets. Clear complications arise from seeking to evaluate the relative worth of the myriad of different activities and support pubs provide. For example, how to measure the value added by the Blackpool licensee in James Baer's Amber Taverns estate, who lays on a Christmas lunch every year for her locals – although she doesn't have a pub kitchen or normally serve food? Or how to value the chat with a licensee that may be the only social interaction in someone's day? **We thus conclude that as this community support is intrinsic to community pubs, the answer is to reward and encourage this essential part of our foundational economy as a whole. We consider the clearest means to do so is by restoring the multiplier applied to the rateable value of pubs to the level at which it was introduced in 1990.** A pub specific multiplier of 34.8p in the pound, combined with an increase in the threshold for small business rate relief would provide a fillip to local high streets, encourage investment in social infrastructure, and acknowledge pubs as a generic community asset. Arguably, the short term cost of this investment will see returns in terms of the uplift to local skills, employment and wellbeing; more practicably, it should be covered by proceeds from an on-line sales tax, as outlined in the Budget Red Book last autumn: *"The government will also continue to explore the arguments for and against a UK-wide Online Sales Tax, the revenue from which would be used to reduce business rates for retailers with properties in England and with the block grants of the Devolved Administrations increased in the usual way."*[3]

3 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1043688/Budget_AB2021_Print.pdf

Box D

The BII investigated the effect that the 2017 revaluation had on one of the nearest towns to its offices: Aldershot.

It has changed dramatically in recent years, from being a thriving army town to one which now resembles many others in the country - a town with closed shops, charity shops, banks and cafés. Well-known brands such as Marks & Spencer, Next, Top Shop and Burtons have long since disappeared. The pubs sector, however, has continued to invest in the community.

There has been investment in and renovation of several pubs in Aldershot town centre. The companies or private owners of these pubs have invested hundreds of thousands of pounds into a community which badly needed it. Not only have they improved the premises, they have also contributed significantly to the local economy – employing local staff with skilled jobs, supporting local suppliers and through generating footfall in the town which is supporting local businesses.

RECOMMENDATIONS

32 We heard repeated calls for a modern rates system designed for a modern economy, and unanimous consent that an online sales tax needed to bear its fair share of the tax burden with funds raised used to reduce the costs borne by bricks and mortar. We recommend this as a matter of urgency. But we are realistic that the overhaul required is unlikely to be delivered within the timeframe needed to protect pubs' viability and catalyse their contribution to levelling up. So, in the short term, we need to make the current system work better.

33 We considered various alternatives for valuing pubs for rates: a flat-rate sales tax applied to all; a simple percentage of rental value; a land value tax; valuation by square footage. All presented problems, suggesting that for the short term at least, a more transparent version of the current system of valuation presents the least-worst option for pubs, with the following actions taken:

a) Invest in more specialist valuation expertise within the VOA. The valuation process is not working as accurately as its ratepayers might reasonably expect. While we accept the VOA's argument that it would be disproportionate to ask for sufficient surveyors to visit all premises in person, there must be enough expertise to undertake fair appraisal.

b) Pubs must not be further burdened by administrative requirements, such as those proposed in the technical consultation on rates. In particular:

- Small businesses qualifying for small business rates relief, who do not currently engage in the rating process, must be exempt from the new administrative measures
- The duty to notify (DTN), by which licensees must inform the VOA of any material changes within 30 days should be restricted to a clear list of triggers which would impact rateable value.

c) To deliver greater transparency for licensees in how their rates have been assessed, when the 2023 list is published this should detail:

- New rateable value
- Ascribed geographic area
- Ascribed pub category

This would help the VOA by reducing speculative appeals and help ratepayers to correct any inaccuracies before the list comes into effect in 2023.

d) Increase the proposed 12 months rates holiday for investment to two years, better to reflect the longer timescales needed to recoup the costs of investment and encourage green investment; remove the condition that the relief is tied to the current occupier, as this would disincentivise the joint investment by landlord and tenant at the heart of the tied pub system.

34 Introduce a specific rates multiplier for pubs, closer to the 1990s level of 34p per £1 of rateable value, to reflect their wider contribution made. They will remain significant contributors to the exchequer through income tax, national insurance, council tax, VAT and excise duty.

35 Increase the small business rate relief threshold from its current level of £12,000, drawing a larger proportion of community pubs into the category of full relief. To ensure multiple operators' entrepreneurship is not penalised unfairly in this, and their further investment encouraged in the communities so needing it, increase the cap per business that can be claimed during 2022/23 from £110,000 to £2m, with government clarification that historical EU State Aid rules have no locus in pubs' unmovable bricks and mortar post-Brexit.

CONCLUSION

36 The APPBG identified business rates as a key threat to community pubs' livelihoods in 2008. In March 2020 we repeated that claim. In March 2022, after two of the most turbulent years' trading in living memory, we amplify our call: business rates present a clear and present threat to pubs' livelihoods, and in that, to some of the communities and individuals most in need of their succour and support as they recover from Covid.

37 **Pubs are being penalised by an outdated tax. They cannot move online. As myriad aspects of economic and social activity move away from bricks and mortar, we consider that pubs have never been more important as the physical embodiment of real-life community. Government must grasp the thorny issue of seeking fair contribution from the digital economy to support those parts of society and the economy that remain invested in the bricks and mortar of our everyday lives. Until a fairer tax is implemented, the business tax multiplier for pubs should be restored to the level at which it was introduced in 1990 and overall relief from rates bills extended for small businesses. In so doing, Government will be incentivising a key part of the foundational economy, critical to ambitions for levelling up.**

Evidence from Tom Kerridge

"Let me start by saying that to me pubs are everything – they are the heart and soul of the community, be that in towns, cities, or the smallest hamlet. They are integral to this wonderful country and for centuries have been the hub of everything we hold dear.

In 2019 I presented a programme on the BBC entitled 'Saving Britain's Pubs'. As it transpired, filming started before the pandemic hit and the premise was how are all those amazing pubs managing amidst a multitude of difficulties? Not well at all. They were closing at an alarming rate. And then Covid became our new norm. And these ailing inns pivoted and did the most amazing things to help their communities – became shops, made and delivered food… became a place of warmth and support like I have never seen before.

Now more than ever we need to give pubs a fighting chance to come back after Covid. Laden with debt, a less than perfect business rate relief scheme and an impending VAT increase do not make for a pretty set of accounts for any of us regardless of business size.

Business rates should be there to support not penalise pubs. The business rates for pubs needs a root and branch review in my humble opinion, that is reflective of today but also has forward planning to better anticipate what the workings of a pub will probably look like in five and ten years hence with a reduction in the multiplier for pubs/community and high street businesses, rebalancing that by taking more money from the digital giants who pay no town centre rates at all.

We have two years of business to recoup. In addition to the massive financial losses incurred, the mental health deterioration suffered by so many in this sector cannot be underestimated. I am messaged literally every day by despairing publicans, at a loss to know what to do next. How to deal with rents that are overdue, problems in recruiting staff, rising costs in all areas from energy to food, loan repayments, VAT increase, waiting for grants to be paid months down the line after they've been promised, all overlaid by a distinctly smaller pool of customers. The fear coming through those messages is palpable and whilst I can't help them other than to offer support and limited advice, I will use my platform and voice as best I can to draw attention to this vital sector that needs help like at no other time in history.

We have much to be thankful for, life returning to normal, a Platinum Jubilee celebration in June giving the country a momentous occasion to come together – let's make sure our pubs are at the very heart of it and feel the love and support of the nation. When they're gone they're gone."

ABOUT THE APPBG

The All-Party Parliamentary Beer Group (APPBG) is a registered all-party group of MPs and Peers. It is one of the oldest, and largest, of the cross-party groups. Its registered aims are:

"To promote the wholesomeness and enjoyment of beer and the unique role of the pub in UK society; to increase understanding of the social, cultural and historic roles of brewing and pubs in the UK and their value to tourism; to broaden recognition of the contribution of brewing and pubs to employment and to the UK's economy; to promote understanding of the social responsibility exercised by the brewing and pub industries; and to support the UK's brewing industry worldwide."

This inquiry follows previous reports from the APPBG, including:

- Beer Tax 1995
- Licensing Law Reform 1999
- Community Pubs 2008
- Beer Tax Fraud 2012
- Unlocking Pubs' Potential 2020
- Caskenomics: Cask beer's Covid crisis and the impact on people, pubs and places, 2021

This report is not an official publication of the House of Commons or the House of Lords. It has not been approved by either House or their committees. The views expressed in this report are those of the APPBG. The report has been funded from existing funds contributed to the All-Party Parliamentary Beer Group and reported on the Register of All-Party Parliamentary Groups [https://publications.parliament.uk/pa/cm/cmallparty/220209/beer.htm]