To: Paul@beergroup.co.uk

16th February 2022

Dear Paul,

Response to the All-Party Parliamentary Beer Group (APPBG) Inquiry into Pubs' Business Rates

Introduction

Wells & Co are a family brewer/pub company founded in 1876 and headquartered in Bedford. We own and operate 170 pubs in central & eastern England. We operate 25 pubs ourselves within our Managed House division (meaning we are responsible for business rates) and lease out the remaining 145 sites in our Pub Partner business (meaning our tenants are responsible for business rates).

Across our estate we have a rateable value of just over £6.25m, meaning a nominal payable exposure of over £3.1m (based on a blended UBR for 2021 / 2022 of 0.5055p). This for a business with a turnover of £30.4m (to year end Oct 2021) seems excessive. Whilst the pandemic reliefs have undoubtedly assisted in mitigating this exposure, we are concerned by the temporary nature of this measure and what impact the removal of the support will be after April 2022.

The impact of Business Rates on our Pubs

We note that it is the Government's intention to reduce the business rates burden upon businesses, which we of course welcome. We are particularly grateful for the expanded retail relief scheme over the past two years. However, we are concerned that the economic impact of the pandemic is far from over and suggest the relief offered is reflective of the imbalance in business rates within the pub industry in the first place.

In order to redress the imbalance in business rates, we believe substantive support and change is required to ensure that the hospitality industry can reinvest and grow. In essence, pub business rates are too high and action is required urgently to prevent further contractions in an industry which according to the British Beer & Pub Association has shrunk by nearly 25% in 20 years.

Perversely, the Treasury Select Committee points out that *"business rate revenue has outpaced inflation since the current system was introduced in 1990. Whilst noting that other factors have contributed to the variance, the Government should acknowledge that there has been an above inflation increase in commercial property-based taxation since its introduction in 1990 and that the revenue generated by business rates has grown as a proportion of GDP."* We feel an immediate rebasing of the UBR for the hospitality industry would go a long way to redress the clear overcharge the industry has been incumbered with over the past few years. However, the fundamentals of how pub businesses are valued by the Valuation Office needs to be addressed in order to remedy the underlying issue.

Fairness of Business Rates

Business Rates are widely considered to be a burden to our pub businesses with few, if any, perceptible benefits. Particularly so in an age where online retailing has decimated many high streets, driving footfall away and impacting on those industries that are reliant on the physical presence of their customers. Whilst we concede it is incumbent on us as operators to attract customers to our premises, the punitive application & valuation of some rates means we start with one hand tied behind our backs.

Pubs by their very nature have a higher duty of care than other retailers. For example, licensees are obligated to ensure they are not serving alcohol to anybody who is 'drunk'. Furthermore, pubs are often then further conditioned through their premises licence. Whilst we fully support and advocate responsible retailing, we do not consider it to be a level playing field when it is possible to purchase a 70cl bottle of vodka for under £10 on most major supermarket's online shops. There are no restrictions or conditions on how many bottles a customer can purchase, and even if there were, it is possible for customers to order repeatedly without being challenged.

The nature of the 'on-trade' is such that it is the licence holder who is required to notice excessive drinking and to prevent it. It is our opinion that this higher duty of care should be better reflected in the calculation of business rates. Fundamentally, there is a higher cost to our operation as a result. In other words, responsible retailing should be better accounted for when setting business rates.

For these reasons, our view is where a business is constrained to a physical location, such as public houses, then this should be reflected in either the rateable value itself or the UBR in order to redress the imbalance between online retailers and on-trade retailers.

Proposal for reform

Reform of the business rates system is welcome, assuming of course it does indeed address the imbalance between on-trade & online retailers.

In principle a move to shorten the revaluation cycle should help to provide more accurate assessments, particularly in an industry such as hospitality where there can be substantial, rapid, change in offer/tenure. However, it is imperative that the provision of information does not create additional burdens on businesses. The stated Government wishes for the provision of information are laudable but our experience in the past is that the process is cumbersome meaning we do not place much faith in the process working. We would point out that several valuation cycles have been extended beyond their intended dates so have little faith in an annual return being processed in a timely manner by the Valuation Office. We also are concerned about the additional administrative burdens on our business.

The current system is predicated on businesses providing information for the Valuation Office to then make their assessments as to value. The proposals seem to indicate that more obligations, penalties, and costs will be thrust upon businesses whilst the Valuation Office seemingly becomes merely a collator of data rather than an assessor. This seems unbalanced and onerous on businesses and given the significant tax burden business rates presents, the process must be fair and open. The Valuation Office should have the requisite skills and knowledge to assess rateable values fairly and justly.

We consider the removal of the 'check' element of the 'check challenge approve' process is acceptable if a Duty to Notify is adopted in a sensible manner. However, this presumes that the Valuation Office alters the List in a timely manner following any changes identified on a 'Duty to Notify' submission.

We strongly feel the exclusion of Landlords from making an appeal where they are not the rateable occupier prejudices our position as a landlord of some 145 sites and demonstrates a fundamental lack of understanding on the Governments part concerning our industry. Even where our pubs are let out, we share in the application of business rates due to the way in which rents are calculated (using the Fair Maintainable Trade model – whereby costs such as business rates are included in the divisible balance). As such we have a vested interest in minimising the exposure as this has a direct impact on the rent chargeable. Furthermore, the ability for us to challenge an assessment can help fulfil our duty as a responsible Landlord in helping our Partners reduce their overheads, thereby allowing them to invest in their businesses.

The introduction of fees for the submission of a challenge is highly inequitable. It has been a long-standing principle that ratepayers have the ability to challenge their business rates and any change to this with the introduction of fees may lead some to withhold challenging on cost grounds alone. In order for ratepayers to have confidence and faith in any new system, they must know it is equitable, one of the ways of doing so is by implementing a free to use challenge process.

Further, any penalties or fines should not be introduced until businesses understand the new system. This is reasonable given many ratepayers have a limited understanding of the current rates system, let alone the proposed changes. To impose penalties from day one strikes us to be unjust whilst the industry learns the new system.

Overall, whilst there is a widely recognised need for business rates to be reformed, it must be done so in a way that supports rather than penalises business. The proposed reforms may go some way to improving the current system, but there is too much ambiguity around some of the proposals, in particular how information will be gathered; what the administrative burden of these reforms will be on businesses and whether the imbalance between on-trade and online retail will be truly addressed.

Hospitality as a catalyst for inward investment

Whilst any reduction in receipts from the hospitality industry will no doubt need to be recouped elsewhere, it has been widely reported that the pub industry has traded better than expected whenever restrictions have been fully lifted. This indicates that the public are willing to visit well operated public houses. The reduction in a fixed cost such as rates allows businesses to inwardly invest in measures to drive further sales, which in turn leads to an improvement in receipts from taxes such as Beer Duty, VAT, and Income Tax, as the businesses grow. The principle being that the success of the business is reflected in higher tax receipts as a direct correlation to that success rather than despite it.

To redress the imbalance with other industries, we would advocate the introduction of an 'Online Sales Tax'. It is evident that the wider economy has shifted more and more towards e-commerce and this has not been reflected in the current property taxation system. This can either be remedied by the introduction of an 'Online Sales Tax' (so long as the benefits is ring fenced for local government and goes towards a reduction in business rates). Alternatively, the properties for which online retailing is reliant (data centres, distribution warehouses, storage facilities etc) could be reassessed to bring them in line with the volume of trade they handle. Though this may also adversely impact on-premises businesses as there is also a requirement for distribution centres. Our preference would therefore be the introduction of an 'Online Sales Tax' dedicated for local authority funding.

Summary

In summary, our view is that taxes should in general be progressive (variable) rather than regressive (fixed), so success and pain is shared. This would incentivise the Government to ensure the economy is robust in all quarters and allow businesses to reinvest with confidence. The burden of business rates hits from day one, regardless of trade. A progressive tax would allow businesses breathing space within their cashflow to ensure that reinvestment, and therefore growth, is forthcoming.

However, we are pragmatists and appreciate it is highly unlikely the Government would seek to scrap the business rates system entirely. We consider the burden of business rates to be excessive on the pub sector and this requires urgent rectification. We anticipate the next 12 – 24 months to be as turbulent as the past 24 months. We call for a reduction in the UBR and/or the introduction of sector-based multipliers (perhaps aligned to use-classes) in order to support the pub sector. Business rates should reflect the public good pubs do, the higher duty of care they offer to the public whilst retailing alcohol (as opposed to online and off-trade retail) and the additional overheads facing the industry as a result of increasing inflation, trade supply issues & increased taxation.

I look forward to hearing further regarding the consultation and am happy to be contacted regarding the contents of this letter.

Yours sincerely,

Nick Wells MRICS
Asset Manager
Wells & Co