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To whom it may concern

**All-Party Parliamentary Beer Group (APPBG)
Response to Parliamentary Inquiry into Pubs' Business Rates - Call for Evidence**

Introduction

As one of the UK's leading practices dealing with rating matters, we are pleased to have this opportunity to respond to this call for evidence. We advise around 40% of the companies in the FTSE 100 and for the 2017 Rating List advise on over 5,500 pubs. We are a leading property consultancy practice with offices in London (West End & City), Glasgow, Birmingham, Leeds, Manchester, Milton Keynes, West Malling and Cardiff.

We have closely followed and responded to the Government's recent business rates consultations and have read with interest the outcome of the various reviews - noting that it is the Government's intention to reduce the business rates burden upon businesses.

Pub businesses have welcomed the extension of the Expanded Retail Relief Discount. However, the economic impact of the pandemic is far from over and more radical assistance is needed to help pub businesses survive the challenges and significant cost pressures they now face.

Pubs and Business Rates Reform

We have provided a more detailed response to some of the specific terms of reference below. Our key message in response to the call for evidence is pub business rates are too high and action needs to be taken to avoid more business failures and encourage inward investment. Without a rates cut, rates bills will revert to unaffordable sums - this would be manifestly unjust, and we urge the Government to provide ongoing support to pub business ratepayers.

The Treasury Select Committee has in the past noted that the business rates burden in England is excessive by comparison with other comparable taxes in Europe and other OECD countries and there is a need for a substantial reduction in the Uniform Business Rate (UBR).

As stated in the conclusions to the Treasury Select Committee inquiry in 2019:

"The growth in 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.”

A significantly reduced UBR would have the added benefit of reducing the need for other reliefs and would allow for a period of stability, whilst longer-term reforms are introduced.

One of the fundamental issues with business rates is that they are charged at around 50% of a property's rental value, which is perceived as an excessive cost to businesses - at the start of modern revaluations back in 1990 the UBR was nearer 35p. At the current level rates are perceived to be both excessive and anti-competitive for those businesses which occupy property and negatively impacts on investment decisions - the continual indexing of the UBR has led to the rate of tax increasing from around 35p in 1990 to over 50p today.

With a move to a shorter three-yearly revaluation cycle it is important that it is introduced in conjunction with other fundamental reforms in respect of a wider review of business rates. These include:

- The UBR should be cut significantly to ensure competitiveness with local property taxes in the EU and OECD countries and to reduce taxes on property in an era of increasing e-commerce. The UBR should be fixed and not subject to inflationary increases - inflationary changes are taken into account in updated property values at revaluations and should not therefore be necessary. The UBR should be fixed, with the revenue from business rates fluctuating directly in line with changes in property values. The UBR should not be reset at revaluations in order to ensure the same tax take for Government. No other tax operates in this way and by fixing the tax rate and holding revaluations more frequently the rating system would respond far more effectively to changing economic circumstances.
- A reduced sector-specific multiplier could be considered to assist certain industries such as pubs and hospitality, based upon supporting those sectors which employ high numbers of people. This should be targeted to assist those businesses which are both property and labour intensive.
- A move to a three-yearly cycle should be coupled with a reduction in the gap between revaluation and the Antecedent Valuation Date (AVD) to one year following the 2023 revaluation.
- The new system as proposed is overly burdensome on pub operators with more administrative requirements, deadlines, penalties and information requests - such as the suggested duty to notify and the mandatory annual provision of lease information. The proposed increase in administrative burdens on the ratepayer needs to be reduced, otherwise this could negate the potential benefit of more frequent revaluations.
- On the grounds of fairness Challenge and appeal rights should be maintained. We strongly disagree with the Government's suggestion of a three-month window for compiled list Challenges to be submitted is appropriate. With a three-year cycle we also see no basis for introducing further restrictions regarding the definition of material changes of circumstances - the ability to reflect material changes which impact on the valuation of a property are fundamental to a fair business rates system.
- There should be an overall rebalancing of taxation away from property and the Government needs to decide how best to make up the shortfall created by a cut in the UBR. This could be from existing or new taxes, or a combination of both. We note the Government will shortly be consulting on an Online Sales Tax, the tax revenue from which could be used to reduce the UBR for occupiers of property.
- The Government should review all rates reliefs and exemptions to ensure those that remain are 'fit for purpose'. The impact of State Aid/Subsidy restrictions and caps on rates reliefs for multiple site

operators and the potential unfairness it creates for large property intensive businesses should also be reviewed.

- On the grounds of fairness downwards transitional relief, which limit falls in rates bills at revaluation, should be removed altogether for the 2023 revaluation in line with a three-year cycle.
- Investment relief for a meaningful period of say at least two years for pubs should be introduced so businesses do not see an immediate increase in rates following new investment.
- There should be an increase in Valuation Office resources and the skills and training for caseworkers who deal with specialist trade-related properties such as pubs.

So far as some of the more specific areas of the rates system are concerned, we would make the following comments.

Valuation Process

We do not consider there to be any particular issues regarding the definition of rateable value, or the principle of adopting a trade-based approach to the valuation of pubs. In some instances, it seems there can be an issue with Valuation Office resourcing and limited caseworker understanding which can mean the agreed pub valuation framework guidance is wrongly interpreted and misapplied. Pubs are generally valued on a trade-based valuation approach and over time the specialist expertise and understanding of the valuation process and how pubs operate by individual caseworkers has reduced within the Valuation Office. Pubs are valued based on an assessment of 'Fair Maintainable Trade' which is assumed to be carried out by a 'Reasonably Efficient Operator' - we are aware that in some instances the actual trade has been adopted without due consideration of the personal goodwill of the business being valued, rather than the property. This perception has led many pub operators to argue that they are being taxed on their business's turnover, rather than the value of the property and consequently feel that they are being penalised for their hard work, success and investment.

In the past this approach tended to be relatively straightforward since many pubs had similar and more aligned business models. However, the application of the approach by the Valuation Office does not readily take account of the wide range of pub business models which exist today. For example, it tends to penalise lower-margin, higher-volume pubs when compared to those with higher-margins and lower-volumes. Many pub occupiers feel they are being taxed on their turnover and not the underlying property value.

Within the pub valuation framework there needs to be more scope to recognise and exclude 'overtrading' and the 'personal goodwill' of operators. This often needs to be established through a lengthy process and there needs to be a much clearer way of determining overtrading operators. Overall, there needs to be more flexibility and understanding to fully reflect the type of business being operated and in turn a pub's correct value.

Pub operators are also faced with a dilemma when spending money to improve their property because it can result in a higher rates bill if trade subsequently increases. Furthermore, frustrations also arise due to the infrequency of revaluations which, coupled with a historic valuation date, means current pub trading performance is not readily reflected in assessments.

The level of rates bills on pubs also attracts criticism due to the overall burden and number of other taxes which are levied on the sector, which cumulatively leads to pubs being highly taxed with high and increasing employment costs.

Current Check, Challenge, Appeal (CCA) System

Ratepayers have been frustrated by the introduction of the CCA system which was introduced with the aim of speeding up the appeal process, however the reality is the system has created barriers and has added unnecessary complexity to a system which previously placed much less of an administrative burden on the ratepayer. Furthermore, the CCA regime has placed an increased burden of proof on to the ratepayer when the Valuation Office has the ability to access a much wider pool of information and is seen not to have resolved the underlying imbalances of the system.

It seems wrong that such a significant tax is levied without any obligation on the assessing body to justify the basis of the tax liability, especially where the taxpayer is unlikely to be in possession of the relevant underlying evidence on which an assessment has been based. In this regard we would therefore like to see a change to the CCA system to allow for a more transparent and fairer exchange of information. The Valuation Office should be obliged to provide details of the evidence upon which valuations are based, which would allow the ratepayer to review the basis upon which the tax is based and make an informed decision as to whether to Challenge an assessment. We believe this change would restore ratepayers' faith in the system and result in fewer Challenges.

In respect of claiming a property, the process of registration needs to be simplified. This would ease the burden on users of the system, particularly for those who operate multiple properties.

There needs to be an increase in Valuation Office transparency with the ratepayer and their agent. Furthermore, the time limits provided to the Valuation Officer to respond on Checks (12 months) and Challenges (18 months) needs to be significantly reduced. Clearly, the Valuation Office needs sufficient resources to enable a diligent and proper review of Challenge submissions within a shorter and fairer timescale.

Many concerns about the CCA process raised when it was being designed have been ignored. There remain technological difficulties for agents and occupiers/owners alike. The timescales involved in each stage of the process remain too long, despite commitments at the time to reduce the statutory limits. At specific stages, we believe there is not enough information available. At Challenge and appeal stages it seems to be an extremely one-sided process, which means the ratepayer is unable to access vital information which would enable them to make a fully informed decision.

Impact of the Government's Current Proposals for Reform

Whilst the Government's announcement to move to a three-yearly cycle is welcome, it is by no means a new idea having been promised by Government following previous consultations on revaluation frequency dating back to 2016. Some will consider a three-yearly cycle to be helpful as it will balance the need for some certainty with a closer link to current market conditions.

It is fair to say that a move to more frequent revaluations needs to be supported by a better flow of information which should be achieved by more transparency on the part of both ratepayers and the Valuation Office.

The current proposals are heavily weighted against the ratepayer suggesting increased obligations, penalties and fees without any clear requirement on the Valuation Office to provide evidence before the Challenge stage. The proposals indicate that increased transparency from the Valuation Office will be phased in, but do not give any indication as to how or when this might be achieved. The suggestion is that all the reporting obligations on ratepayers will be instigated first, following which consideration will be given to requiring transparency from the Valuation Office.

The proposed changes of measures to the rates system in its current form do not in our opinion represent a fair and balance trade-off for ratepayers. The measures seek to move much of the responsibility for maintaining an accurate Rating List from the Valuation Office to the ratepayer.

The continued messaging from businesses in recent years has been that a move to more frequent revaluations is the only way to make business rates fairer and more reactive to economic changes. However, equally important as a move to more frequent revaluations is a reduction in the period between the AVD and revaluation date from two years to one.

Our view is the aim should be for revaluations with a one-year AVD gap, but we would agree that a three-yearly cycle is a positive step. We consider the next revaluation after that in 2023 should be in 2026, with a one-year AVD gap.

In view of the significant tax burden imposed by business rates, it is a fundamental principle that the system should be fair and transparent. This principle has constantly been at forefront of responses from trade and industry groups and it is important that fairness and transparency are not sacrificed against the perceived additional costs associated with more frequent revaluations. We note that some of the measures put forward could, if introduced in a measured and fair way, support the move to a three-yearly cycle.

Rebalancing the Burden of Business Rates between the Digital and Physical Economies

A major area of concern with business rates is it exerts too high a cost on property-based taxation, and in particular property intensive sectors such as pubs and hospitality which require a physical presence to trade. We appreciate that reducing this burden would create a reduction in tax revenue, which would need to be recouped, for example by reprioritising spending or through other forms of taxation.

An Online Sales Tax (OST) has been suggested as an alternative to some of the revenue generated through property taxes. We believe an OST should form part of a wider discussion about UK taxation and this could have some merits, provided the tax revenue raised is ring fenced for the finance of local government and is directed towards a reduction in business rates. Clearly, one benefit of an OST would be a broadened tax base thereby allowing greater scope for a reduction in the UBR applied to property-based occupiers.

A Call for Change

We reiterate our call for change and a reduction in the burden of business rates for pubs which, following the cessation of the Expanded Retail Discount, are at a level which we consider to be excessive. Along with other measures we have referenced above we support the call for a significant reduction in the UBR and/or the introduction of a reduced sector-based multiplier in support of pubs, particularly during a period of continued uncertainty. With the introduction of a three-yearly cycle and on the grounds of fairness we also call for the removal of downwards transitional adjustments altogether for the 2023 revaluation.

We look forward to hearing from you further in relation to the consultation and would be happy to expand on any points we have raised where appropriate.

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