

# Stonegate Group

## Parliamentary inquiry launched into pubs' business rates Call for Evidence

The inquiry's terms of reference are:

### 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.
- 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.
- 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.

### **The impact of business rates on pubs' operations in England and the efficacy of the valuation process and appeals system.**

For Pubs a receipts and expenditure (R&E) valuation is needed, although the VO generally uses a RV based upon a predetermined percentage of actual turnover. There is minimal attempt to identify/use fair maintainable trade and there is no obvious regard given to site expenditure and divisible balance i.e. profit – this means the actual trade forms the assessment rather than valuing the property vacant and to let.

The above approach from the VO is likely the result of the fact that in the past public houses were generally let via tied tenancies and operation types were fairly consistent meaning the application of a % to an assessment of the Fair Maintainable Trade gave consistent results. But in the modern pub industry there are a wide range of operators with different models including more free-of-tie rentals and a blurring of the lines between pubs and restaurants. This has now become a problem as there are businesses that focus on night time trade and restrict their opening hours or focus on family's custom or have a strong focus on food/casual dining sector in competition with restaurants – but importantly all are different with different profitability levels. **In short – the VOA approach to use a % approach to gross trade is no longer an appropriate measure of comparison as no account is taken of the profitability of the site.** The actual trade that forms the assessment means the VO are

valuing the business rather than the property 'vacant and to let' which is what the rating assessment should be.

This means a strong operator who increases his trade is assessed significantly higher than someone who is not as efficient or skilled. The strong operator may invest significantly in his offer to the public which has no relationship to the property itself and yet sees this reflected in a higher rating assessment irrespective of profit margin, whereas a weaker operator who does not put the effort in ends up with a significantly lower rates bill. The rent payable by the operator will not change due to their investment but in the rating system and the VOA approach of applying a % to a Fair Maintainable Trade based on the actual trade - this results in a higher assessment of rental value under the rating approach adopted by the VOA. The assessment is not a guide to property value but instead values the business. **This represents a disincentive to invest in your business staff or equipment as increased turnover will lead to higher rates bills for the same property.**

The process could be improved by improving the skills and resources in the VOA. The reality is that licensed property rental valuations are a specialism which requires experience and specialised training.

Our rating agents advise that the current Check, Challenge, Appeal (CCA) system makes the matter worse. The inherent delays built into the system and the artificial time limits imposed on the ratepayer deter the ratepayer from challenging their RV. The system and associated IT was poorly designed and not properly tested before coming into force. This represents a challenge for the Government's plans for 2023 & 2026 revaluations and the requirement to make annual returns, advise on changes within 30 days and a fixed time limit of 3 months for valid Challenges to be made at the start of the 2026 revaluation.

The process of registration could be simplified to allow agents to register clients directly onto the client dashboard with a letter of authority from the ratepayer and a copy of a bill or other proof of occupation or ownership. This would ease the burden on users of the system who have multiple properties. A bulk claiming process has been suggested in the past and not produced and this is a priority requirement and will be more imperative when all properties assessed for non-Domestic rates will need to be 'claimed' to comply with the reforms proposed regarding annual returns confirming facts.

The process of claiming is frustrated by the assessment of the proof of interest the ratepayer has in the property. Slight differences in ratepayer name/address the property is known as or shown on a rate bill or land registry document all prevent acceptance of a valid Claim. This frustrates the submitting of time critical checks and therefore a revised process should be adopted to allow time critical checks to be submitted to set the material day with validity to be check thereafter. Our agents gave an example where recently, a response to submitting a Land Registry extract as proof on ownership was rejected as the evidence was deemed 'out of date', resubmitting the 'Claim' a second time and the Claim was approved!

It would be useful to see an increase in transparency for both Checks and Challenges as currently it is anonymous regarding who is dealing with the case apart from a general email address.

The time limits provided to the Valuation Officer to respond on Checks (12 months) and Challenges (18 months) need to be reduced if possible as this is far too long. But equally, the VOA needs sufficient resources to enable diligent and proper review of Check and Challenge submissions.

### **The fairness of business rates on a sectoral basis.**

Business rates have for the last 10 years been charged at nearly 50% of the rental value of a property, which results in an excessive cost to the business. If rates were charged at around 25-35% of the rental value, the level of tax will obviously be reduced, and fewer businesses will see the rates as an excessive burden.

Non-domestic rating would be fairer if RVs were up to date and the UBR was set nearer 35p in the £, as was intended originally from 1990. At 50p + the tax is uncompetitive.

Rental and RV growth has not kept pace with RPI inflation; therefore, the indexing of the multiplier has led to the effective tax rate increasing from less than 35% in 1990 to over 50% currently.

Changing commercial practices; consumer habits associated with the on-line phenomena; have culminated with the Covid 19 outbreak in a situation where it ensures business rates are a disproportionately high fixed cost for many businesses who have a physical presence such as pubs/restaurants on the High Street. Online sales operators need to pay their fair share.

### **The impact of the Government's current proposals for reform.**

The changes proposed must be introduced with fully tested and functioning IT systems and software that is fit for purpose in advance of roll out. Developing and introducing IT after its formal launch, as happened with CCA should not be allowed to happen again.

The move to three yearly revaluations should make NNDR more responsive, however that responsiveness ought to be a feature of a fair and just tax system anyway.

There is a risk that Government proposals will result in more administrative burden being placed upon businesses for the convenience of the VOA. If a requirement on business to provide information was met with a release of relevant evidence, fewer appeals would need to be made.

The reforms set out:

- Duty to Notify of Changes within 30 days
- Mandatory Provision of rent & lease information within 30 days
- Annual confirmation each April within 30 days including annual declaration of trade on public houses.

The proposals imply a transfer of the responsibility from the VOA to businesses in order to confirm factual matters of every assessment in the rating list.

The duty to notify will impose new administrative burdens, especially in cases where an assessment is factually correct and reasonable. The trade-off, being the abolition of the Check phase of CCA, will only be of some benefit should a RV require a challenge with any benefit outweighed by what appears will be a stringent compliance system.

The abolition of the Check phase will be beneficial provided information that the VOA accepts as correct is stored for the next declaration. A recurring feature of CCA is corrected facts accepted by the VOA are not stored permanently, as evidenced by the original incorrect information requiring reverification at the next Check submission. This would undermine the proposed “light touch” approach outlined by Government.

The Government is wanting to engage with ratepayers remotely to obtain the information that it requires, although when things go wrong, engagement will be based on a written penalty appeal in respect of a predetermined excuse. The concern regarding the penalties is that the IT system will not be up to scratch or be updated correctly. Our rating agents have advised that from experience with the current Requests for Information, they have seen numerous examples where either forms have been returned in June 2021 to the VOA but they have not updated their system and the net result is Penalty Notices being issued for non-completion. This does not give confidence regarding the VOA systems and Checks.

The proposal of three months to Challenge and up to the end of the list for a decision is weighted further in the VOA’s favour. A three-month window for ratepayers to ask for information with a 15-month period to Challenge would be fairer, leaving the remaining half of the cycle for the VOA to issue decisions. With the proposed time limits as they stand, large ratepayers such as Stonegate with 500+ properties will be required to request the further information in advance on all their properties and this could see a significant resource issue for the VOA. This appears impractical. As for CCA, the system appears to be designed for the sole trader without due consideration made for larger portfolios.

The concern is that the proposals will: result in an excess of information that the VOA will not have the resource nor IT capability to deal with; it will impose more bureaucracy on businesses and result in businesses having to deploy resource to non-entrepreneurial activity, thus hampering productivity; and importantly the system will not be able to cope with large portfolios.

The reforms proposed are significant and it is important that pilot schemes and testing are undertaken to ensure a gradual delivery of the system up to 1 April 2026 – so that it is fit for purpose. The system must cater for large corporate entities, some of whom have thousands of hereditaments. In this regard we suggest that the development phase must include a pilot scheme involving corporate occupiers.

The requirement to provide information within 30 days of the annual date will be particularly difficult to achieve for these large portfolios. We propose that there should be a

60-day deadline, or perhaps the ability to start making declarations 30 days either side of the annual date i.e., a 90-day window.

The website must be able to cope with such seasonal demand, which no doubt will be at its greatest towards the end of April. The suggestion of a 90-day window will avoid undue seasonal demand spiking in a 30-day period, resulting in less hasty and therefore more accurate declarations. There would be less chance of IT being overwhelmed.

Information provided to the VOA must be retained so that it is available for verification/updating at the next declaration. A failing of the current facility is that missing data is provided or updated, only for the original incomplete or inaccurate information held by the VOA to reappear at subsequent points in the process. This failing must be corrected. Ratepayers declare the accuracy of the information that they have provided and, in this regard, the VOA must accept and retain it. They're not doing so is an inefficiency that must be corrected.

The Government proposals assume that the VOA has perfect real time data, although we foresee inaccuracies in rating list addresses exposing major problems when dealing with non-compliance issues and fines that may not reach the intended recipient.

Typical address problems include: an address in the rating list does not resemble the postal address; the hereditament does not have an address; the address adopted by the VOA cites a business that no longer has an interest, or some or all of the address is incorrect. A common complaint are inaccurate postcodes.

The requirement to provide information within 30 days ensures that the system will be out of balance from the start. This iniquity will be exacerbated by the stringent, inflexible penalty system.

We therefore reiterate our suggestion of a 90-day window with 30 days either side of April in order to give businesses a reasonable prospect of meeting their obligations. This would make the sanctions seem less draconian.

The new system will impose a significant administrative and cost burden upon all businesses. For corporate multiples in particular they may have to take on additional staff or redeploy resource in order to deal with a function that is counter-productive to their business.

### **Hospitality as a catalyst for inward investment, high street regeneration and employment and skills growth.**

Stonegate Group invest in the region of £100 million each year within the fabric of the buildings the company own and operate. Within the managed division this is further supported by the creation of additional jobs for those within the local community, and within the Leased and Tenanted sector this investment enables entrepreneurs to further develop their business proposition, often creating work for many other local businesses and providing additional jobs.

The impact of the pandemic on hospitality caused many casualties, however Stonegate Group managed to avoid any retail redundancies and have subsequently created c 1,000 new jobs over the last 12 months including roles within the support and operational teams. Stonegate provided millions of pounds of rent, trade and other support to its tenants and operators throughout the pandemic, ensuring that as many as possible remain at the heart of communities.

The focus on people has seen the company double the scope of the training team to broaden the number of people enrolled on their award-winning Albert's Theory of Progression (ATOP) career development programme. Currently over 2000 employees undertake additional formal training each year to enable career development. Since its inception, this programme has seen thousands of employees move up the career ladder, across all disciplines, as they develop operational and management skills and knowledge.

The overall result of this continued investment in people can be seen in some impressive employment metrics:

- Over 90% of colleagues would recommend Stonegate as a place to work, which is industry leading
- Team member retention continues to improve year-on-year
- Over 230 General Managers have been developed internally via ATOP, culminating in the Accelerator programme which prepares Deputy Managers for promotion to GM.
- 94% of Pubs and Bars have at least one member of their team on formal learning at any one time, and most have many more.
- All of these initiatives help to reinforce and embed the company's 'bar to boardroom' ethos, which provides a clear route for people to develop their careers, based purely on their potential and drive rather than any other factors. This meritocracy sits at the heart of the company culture.

Circa £1M is invested in internal training and a further £1M via the Apprenticeship Levy.

**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.**

We agree with the comments of Business Secretary Rt Hon Alok Sharma MP when he stated in June 2020 "Our pubs, restaurants and cafes are the lifeblood of high streets and town centres across the country". Over the years, pubs have been at a competitive tax disadvantage compared to off-licences and supermarkets. The latter's cut-price offers have driven the rise of drinking in the home, which has been linked with higher rates of harmful drinking. This pattern has been exacerbated by the Covid pandemic lockdowns (cf. <https://www.theguardian.com/society/2022/jan/17/millions-in-uk-drinking-harmful-levels-of-alcohol-at-home-experts-warn>).

Pubs now also compete with online food, drink, gambling, gaming and retail industries for customer's discretionary spending, and again the tax system creates a substantial disadvantage for pub-operators.

The way to rebalance the burden of business rates between the digital and physical economies would be an online tax. There are merits in such an approach should the tax revenue be ring fenced for the finance of local government and furthermore, the revenue goes towards reducing the tax take from business rates applied across the board and/or it subsidises green investment.

It is important that the tax revenue is ring fenced otherwise the risk is that it becomes just another source of revenue without benefiting and reducing the rates burden on those who occupy physical bricks and mortar.

However, there is a risk regarding the definition of 'online sales' and what would fall to be taxed. A common perception is that an online sales tax would be seen to be targeting the major online retailers such as Amazon as opposed to retailers with a 'brick n' mortar presence'. 'Online sales' would need to be clearly defined but the difficulty is that many businesses that are not the intended target would be caught by a legal definition, especially since Covid as more businesses (such as pubs and restaurants) have offered an online presence. This would include retailers offering Click and Collect and see them taxed twice via business rates and online tax, therefore care would be needed.