UKHospitality response to APPBG inquiry on pubs' business rates

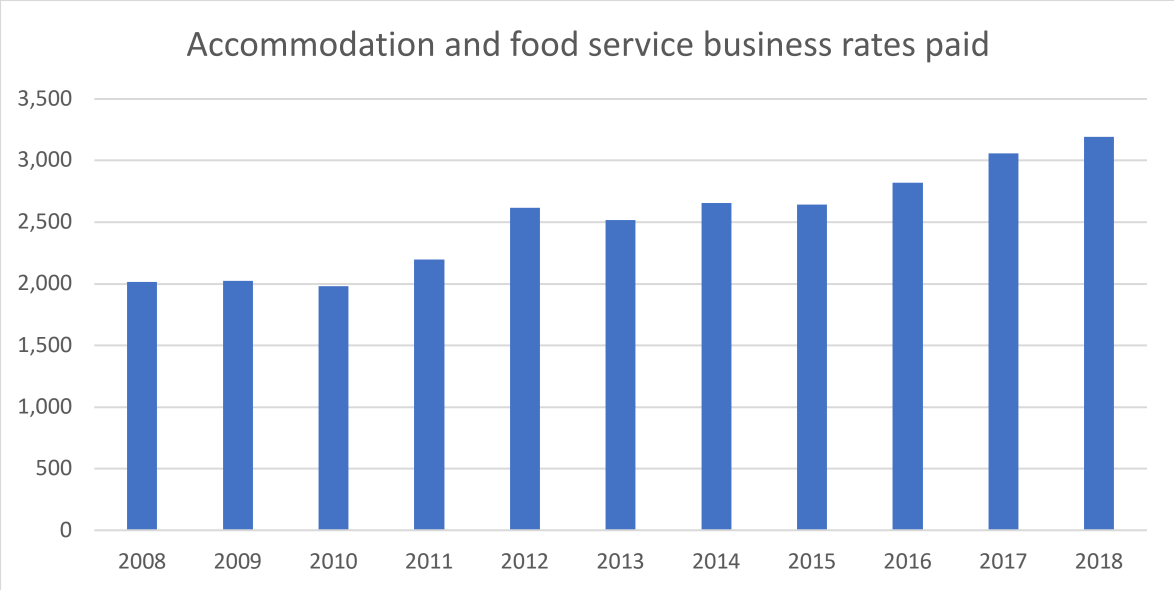
UKHospitality (UKH) welcomes the opportunity to respond to the APPBG inquiry into the impact of business rates on pubs. This response will focus on the broader impact on the overall hospitality sector but with a particular focus on pubs. The response focuses on the priorities set out in the call for evidence.

Executive summary

- Government must introduce a hospitality (or high-street) multiplier for 2023
- An online sales tax can make up the loss of revenue from a high-street multiplier, securing funding for vital local and national services
- In the decade before the pandemic hospitality business rates rose by more than £1 billion – or 58%
- Business rates negatively affect the Government agenda – on jobs, skills, investment and levelling-up
- Government much introduce a hospitality tax rate to redress the unfairness of a property tax
- Pub valuations should be better resourced – taking into account over-trading, the location of a property and historical changes
- Government must undertake an urgent investigation into whether the current pub methodology is fit for purpose
- Hospitality overpaid by £2.4 billion relative to its turnover pre-pandemic
- As a proportion of turnover hospitality pays four times more than the average sector
- Property taxes in the UK are nearly double the EU average
- If Government continues with reliefs rather than a differential multiplier this must finally be free of the shackles of EU State Aid rules
- Current Government reform proposals put an ever-higher burden on business
- Reforms to the appeals system deny businesses, particularly SMEs, access to reasonable recourse for errors in valuation
- Hospitality is the future of the high street – reform of business rates will deliver great places to live, visit and experience

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

The cost of business rates to hospitality[1] had soared in the decade leading up to the pandemic, **increasing by over £1 billion, or 58%.** In 2018, the sector's rates bill topped £3bn.



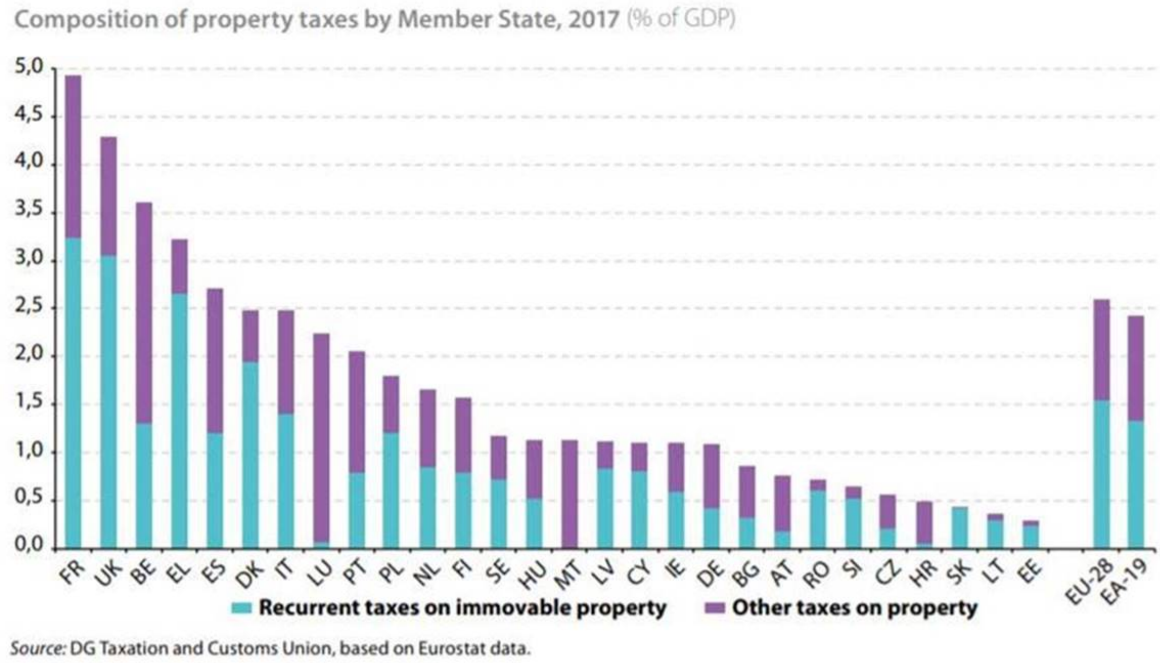
The high business rates on hospitality has a tangible economic impact. On an operational basis they have a clear detrimental impact on margins, which affects a business' ability to spend more on other cost lines – such as wage levels and training – negatively affecting our substantial workforce.

There is also a much-reduced potential for investment, which compromises the proposition that pub and hospitality businesses can offer their customers. There is a knock-on impact into the overall environment in which these businesses operate, with lower investment in town and city centres and high streets which reduces the pride people have in their local area. The fact that investment leads to higher business rates perpetuates this anomaly.

Ultimately, it can act as a barrier to opening new sites, creating jobs and making local communities more attractive. Business rates act against the Government agenda in almost every area.

There is a clear discrepancy with property taxes in the UK, compared to other countries. The chart below shows **property taxes as a proportion of GDP, with the UK (along with France) paying substantially more than other nations, and nearly double the EU average.**

[1] Using the ONS' accommodation and food service' description – a narrower definition than UKH uses



The valuation system is much-maligned but UKH feels, broadly, that it succeeds in its objective of measuring the rental value of properties. There are numerous exceptions to this and there is a need for the system to be vastly improved. However, the main complaint that UKH has with the system is that a property tax is inherently unfair on hospitality (and high streets more generally) and that reform of the way in which the tax is levied is imperative.

Our recommendation is that Government introduces **a hospitality-specific tax rate** (multiplier) – this could also be applied to other sectors that face higher property prices, such as leisure and retail. This would address the unfairness of **hospitality paying nearly four times more than it should do relative to its turnover** (see Q2).

There are arguments for support to be provided in terms of relief, rather than a differential tax rate. However, currently, the UK Government feels constrained in its ability to provide reliefs due to its arrangements with the European Union. This essentially means that the UK mimics EU rules in terms of the support available to businesses.

We have long been sceptical that State Aid (now Subsidy Control rules in the UK) should apply to property taxes as buildings are self-evidently not tradable across borders in their physical form. If Government opts to support business through reliefs, then we would strongly urge them to distance themselves from EU rules associated with subsidies. Using such rules means that around 70% of hospitality venues (with an even higher proportion of the workforce) miss out on support. Essentially, these rules mean that the vast majority of the sector pays punitive rates.

The valuation process could be enhanced with more resource provided to the Valuation Office Agency (VOA) to carry out more detailed valuations. The 'Approved Guide' which determines how pubs are valued, and which is agreed by industry bodies, including UKH, sets out a number of issues that need to be taken into consideration. We are doubtful whether this are routinely considered.

Valuers must be cognisant of whether an operator is over-trading. There is little mechanism in place at present for this to be established, with the result that successful businesses are punished (and, potentially, vice versa). There should be a clear mechanism for operators to highlight where they believe they are over-trading.

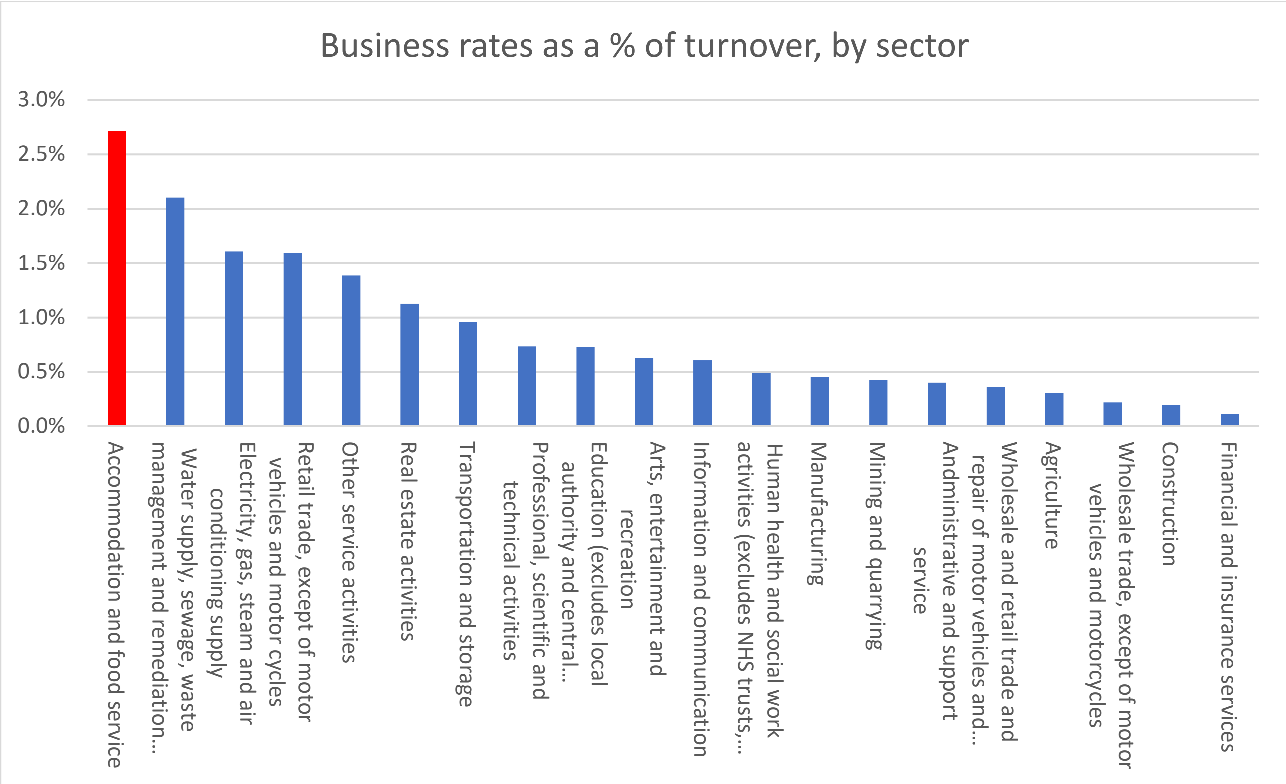
There is also the option for hospitality businesses to be valued on a similar basis to retail properties, where there is relevant evidence, such as on high streets. This is very rarely used in our experience.

There is also a stated obligation for a valuer to 'stand back' and consider the valuation they are making. This would include changes to the previous valuation and comparisons to nearby businesses. Again, from evidence we have seen, this is not routinely taking place.

Overall, we feel there is a need to undertake a thorough review of whether pub valuations are realistic to the environment in which they operate. Government and industry should combine resources to assess whether valuations are appropriate in relation to other sectors.

2. The fairness of business rates on a sectoral basis.

Compared to other sectors hospitality continues to be significantly disadvantaged. Hospitality's business rates bill as a proportion of turnover is significantly higher than other sectors. **Across the whole economy business rates account for 0.7% of turnover – yet in hospitality this is 2.7%.**



Further, **hospitality makes up 11% of all business rates payments, despite contributing 3% of eligible income. If hospitality's business rates bill was equivalent to its trade, rates would be £2.386 billion lower.** There is a real discrepancy between business activity and business rates, and this must be addressed in Government reforms.

The House of Commons Treasury Committee made the point about business rates not falling equally across different parts of the economy: "***business rates place a far greater cost on businesses that need a physical presence to trade*** – such as high street shops – than those that can rely more upon an online presence." This is clearly the case with hospitality.

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

We are extremely concerned by the Government's proposals for reform of the business rates system. While we support their objective – to create more accurate assessments through 3-yearly revaluations – they have shifted a substantial administrative burden onto businesses.

Under the plans, businesses will need to provide a vast wealth of information about their operation, much of which is highly sensitive, to the VOA. There is limited evidence that this will be of benefit to businesses but will create a substantial extra administrative burden. This is likely to include reports on changes to their rental agreement, improvements to their site and various other requirements.

Furthermore, there will be harsh penalties for not reporting on such changes within 30 days. This will end up penalising businesses who are unaware of the requirements and force businesses to give an unprecedented level of data to Government.

There are even more concerning changes to the appeals system. As mentioned above, the *Check, Challenge, Appeal* system has been a very long way from perfect, but in theory it offers opportunities to streamline the appeals system and give recourse to business for corrections to their valuations in a relatively short timescale. This is due to be removed with the current reforms, as well as time-limiting appeals.

The proposed removal of the *Check* stage, which is designed to eliminate obvious mistakes, is very damaging. This process has still not been made to function efficiently for pubs and hospitality but is the right approach. Businesses should have full information of their valuation and be able to correct false inputs (such as their geographical location, turnover data, etc).

The reforms also intend to time-limit the ability to *Challenge* one's valuation. This would be constrained to just three months after the new valuation date. For many this is simply not long enough. While for the VOA and business rates experts the valuation will be a critical concern, for many businesses it takes times to process what outside agencies do to their business (model). Even with advance notice it is not fair to assume that a business will know quite how their valuation is calculated, particularly given the low level of understanding of the valuation methodology in the market. This reform must be scrapped.

The Government also plans to abolish the mechanism by which substantive legislative, economic or social factors can be built into valuations. This builds on the decision that Covid could, bizarrely, not be considered as a factor when applying for a Material Change of Circumstances (MCC). This has resulted in city centre businesses being heavily penalised as a result of the pandemic and not being able to do anything about it.

This reform effectively removes responsiveness from the business rates system, at the same time that Government is claiming to make it more responsive by making revaluations three-yearly. This could equally apply to changes in licensing law (e.g. a theoretical blanket change to 11pm closing) or other outside factors that clearly materially affect the value of a hospitality property.

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

Hospitality is the answer to so many of Government's objectives. We are omnipresent across the UK, and so are central to the levelling-up agenda. Reviewing the Government's levelling-up white paper it is evident that hospitality contributes to so much of the agenda. It is doubtful that levelling-up can be delivered without our sector being centre stage – given our influence on communities, the workforce and consumers.

In particular, we play into the levelling-up mission of *Pride in Place*. Hospitality resonates with local communities. Local pubs, restaurants, cafes, hotels and more are what people associate with their local area. This is even more the case with the decline of large retail presences.

The future of the high street, probably even more so post-pandemic, is about hospitality, leisure, housing and essential and top-end retail. Hospitality and leisure will dominate that physical space and give people a reason to come together and celebrate their local area.

Essentially, with a lower business rates burden hospitality can amplify its contribution to the national recovery. We can contribute to higher wage rates and enhance our fabulous skills offering. We will invest in high streets and local communities, creating great places to live. And we will do this in every part of the country – leading the charge for greater regional economic equality.

5. 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 case for reform is abundantly clear. Hospitality, and the high street more generally, significantly overpay on business rates under the current regime.

Property taxes are terrible for businesses that need to be where people are, such as hospitality. They benefit businesses that can set up far from busy areas, such as distribution centres.

Government must redress this by **providing a reduced tax rate for sectors that are reliant on human traffic**, essentially hospitality, leisure and (parts of) retail. We know this is feasible as it was done during the pandemic. There are no administrative hurdles. At the same time, they should **ensure that EU State Aid rules have no impact on business support**.

There must also be an analysis of the impact of the pub valuation methodology for town-centre venues – are they being unfairly valued compared to their neighbours trading in retail?

The Government has committed to undertake a review of online taxation with a commitment that revenues are used to offset the burden on physical premises. **We believe an online tax is imperative to fund a lower rate of taxation for physical buildings**. However, we would caution against a blunt mechanism that ends up double-taxing hospitality businesses that use digital partners. There should be an exemption for business that is generated through a physical property. UKH is keen to work with Government on the mechanics of such a tax.