All Party Parliamentary Beer Group Business Rates Inquiry.

Admiral Taverns response 17th February 2022

Admiral Taverns (Admiral) is an independent tenanted and leased pub company trading throughout England, Scotland and Wales. We are pleased to have an opportunity to respond to the inquiry into pubs' business rates by the APPBG.

Admiral currently own 1,610 public houses following the purchase of Hawthorn Pub Company in August 2021. The majority of our pubs are let to individual licensees on a variety of lease and tenancies tailored to suit the individual circumstances of the licensee and the property. Our licensees are self-employed, with many taking on their first business venture using the low entry cost to take on a pub. We invest heavily in and develop our licensees by training, developing and supporting them in their own business. We also have an extensive investment programme to improve the quality of the fabric of the pub premises and the quality of the experience for the customers.

We employ more than 150 people directly, some working remotely "in the field" but most are based in Chester and Birmingham offices. Our employees provide the support and back-up to our licensees in their pubs.

We believe we are one of the country's most progressive and supportive pub companies employing a business strategy that allows the individual independent tenants or lessees to thrive and grow their businesses. This has been reflected by consistently achieving the highest overall score amongst regulated national pub companies in the annual UK Licensee Survey.

We work in partnership with our publicans to develop their businesses, the majority of which are "community locals" providing a service to their local customer base. They are hubs which bring people together and provide a forum to prevent isolation and loneliness and are significant fundraisers for charity. During the Covid pandemic and lockdowns our licenses have been recognised as community champions with their support for elderly and vulnerable people through meal deliveries, shopping deliveries etc

Many community pubs generate weekly turnover of £3-5k per week and therefore changes to the fixed cost base has a disproportionate financial impact. As a result, we feel it is important for us to contribute to the review of the rating system, as rates liability is a significant outgoing in our licensees' business.

In our estate, there are many properties with relatively modest Rateable Values and a significant number enjoy some Small Business Rate Relief and the overwhelming majority of our operators enjoy the benefit of the Small Business Multiplier. These benefits contribute to maintaining viability in a vulnerable part of the hospitality sector, but these need to go further.

Admiral is a member of the British Beer and Pub Association and have contributed to and seen their response to this consultation. We are supportive of the responses made by the BBPA and will make reference to their submission as appropriate throughout this response.

Turning now to the 4 main areas for which you have requested written evidence:

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

The pub sector has long suffered from over-taxation on business rates. Indeed, pubs pay more in business rates, per pound of turnover, than any other business sector. The Business rates bill for the sector accounts 2.5% of total business rates paid despite only representing 0.5% of total rateable turnover, an overpayment of £570 million.

Business rates represents a major cost burden on pubs and is frequently the second largest operating cost after staff wages exceeding the costs of repairs, utilities, entertainment and statutory compliance.

Rateable Vales (RV) is also the basis for other annual costs incurred by pubs such as satellite TV.

The burden for many community pubs with modest rateable values has been eased by Small Business Rates Relief (SBRR) which provides a nil liability under Rateable Value (RV) £12,000 and a sliding scale up to a full liability at RV £15,000.

It is a fact that SBRR ensures viability for a significant number of community pubs. **It is therefore imperative that SBRR is maintained, and the provisions extended for the 2023 Revaluation.** Simply put, without SBRR many community pubs will prove to be unviable and inevitably close, with the immense detriment of the local areas they serve.

The qualifying thresholds for SBRR must be increased to ensure pubs currently benefiting from SBRR do not lose it's protective benefit in the Revaluation. We suggest that the lower threshold for 100% SBRR in England is increased from £12,000 to £20,000 with a tapering to £25,000. We do not believe this would have a significant impact on government finances. The BBPA has estimated that rates payable by pubs with RVs between £15,000 and £20,000 is approximately £38m pa which is a very small proportion of the total rates payments by pubs of over £713m. **There could therefore be a significant benefit for a large number of small pub businesses taken out of the rating system for a small reduction in government income.**

We would advocate that to support local high streets and communities, Small Business Rates Relief should apply to all small RV properties even where these are operated by proprietors with multiple premises. This would be more consistent and fairer in a system designed around individual property value. It would also make the system clearer to individual ratepayers.

The Uniform Business Rates multiplier (UBR) must be adjusted downwards if the business rates system is going to remain a viable avenue for tax in the future. It has increased to a staggering 51.2p today from a more manageable 34.8p in 1990/91. Paying an additional 50% of rent in taxes, compounded by changes to consumer shopping behaviour, is unsustainable for property-based businesses and is threatening both businesses and future revenue streams for local councils.

We also welcome the Government's announcement to align better the UK's tax regime to the realities of the 21st century economy through the introduction of an Online Sale Tax (OST) and await the consultation announced for later this year.

The annual indexing of the UBR results in annual liabilities increasing over the rating list. It would be beneficial for the purposes of commercial planning, forecasting, certainty and not least affordability for this to be fixed for the duration of the List.

We fully support the BBPA's suggestion for a pub specific UBR multiplier. Ideally this should be in the form of a permanent sector relief or a property-specific multiplier that recognises both the disproportionate burden that pubs continue to face relative to other sectors and the unique role they play in community life, health, wealth and wellbeing. This would need to be exempt from subsidy control limits. It would build on the recent pub-reliefs that acknowledged this and the particular challenges pubs continue to face. Pubs are the original social network and by their nature, inefficient users of space. As well as vital local jobs, they provide a comfortable and welcoming environment and often provide free use of this space for local clubs to meet, run sports teams and charitable events at their own expense, and act as tourism information points. Through Pub is the Hub and other schemes this may be taken to the next level in terms of providing post office services, a library, parcel collection, tourist information and so on. Indeed, many pubs are listed as Assets of Community Value. The current pandemic and lockdown have only reinforced the key role pubs play, with countless examples of additional services being offered to support local communities during this time. As noted above, pubs pay more as a percentage of turnover than other business sectors despite these important community services.

In the event that a pub specific multiplier is not introduced then we advocate maintaining the Small Business Multiplier with the suggestion that the threshold for a small property should be increased from the present £51,500 to £60,000.

The valuations process for pubs is supposed to be based on Fair Maintainable Trade (FMT) but too often it is based almost blindly on the turnover receipts provided by the licensee. This results in local high performing licensees being penalised by over inflated assessments.

The Check Challenge Appeals process introduced in 2017 has started to bed in after a difficult start borne out of IT difficulties, unfamiliarity with a complicated new process and degrees of inflexibility. More recently the willingness of the VOA to accept challenges to pub bandings in isolation has certainly helped speed up the process and enabled obvious inaccuracies and unfairness to be corrected.

We understand that the Valuation Guide being produced by the Property Rates Forum (PRF) comprising VOA and the Sector will help in more accurate valuations for the 2023 Revaluation. This is expected to include specific reference to FMT and a pivotal “stand back and look” instruction to valuers to look at the outcome of a valuation produced by applying the guide and considering whether the final figure is sensible given the evidence and individual circumstances which apply (e.g., physical characteristics, correct valuation approach, possible overtrading, etc.)

We understand that the BBPA believes that the 2023 Guide will be an improved iteration of guidance but we would also acknowledge that the methodology for pub valuations requires specialist knowledge and expertise. Where disagreements occur, the guide, when interpretated correctly by two experienced licensed property valuers, should in most cases produce outcomes where any differences are capable of being reconciled. The PRF acknowledge that further changes may be required to reflect a changing market in future editions of the guide so that it yields the most accurate valuations possible.

2. The fairness of business rates on a sectoral basis

The BBPA's response to this consultation contains detailed assessment of the unfairness of business rates to the pubs sector with which we are in full agreement.

The brewing and pub industry in the UK makes a major contribution to the local and national economy. The sector generates £23 billion of economic value and supports 900,000 jobs. 85% of pubs in the UK are run as SMEs. However, the sector has also long suffered from over-taxation on business rates. Indeed, pubs pay more in business, per pound of turnover, than any other business sector. The business rates bill for our sector accounts for 2.5% of total business rates paid despite only representing 0.5% of total rateable turnover, an overpayment of £570 million.

As one of the highest taxed sectors per pound of turnover, we do not believe the current system is fit for purpose, nor does it reflect a fair and equitable model for taxing business. Indeed, overall, the UBR multiplier has increased to a staggering 51.2p today from a more manageable 34.8p in 1990/91.

We too were pleased to see clear references to fairness for ratepayers in the HMG consultation but believe that fairness should not be confined to just those already captured within a system, but rather as an overall consideration for establishing a system itself. As such, we would again make the case for reviewing how Government can offset the burden borne by physical properties by including the increasingly large section of today's modern economy ie digital business.

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

Admiral supports the proposed move to 3 yearly valuations.

We agree that fairness should be a governing principle and applying this to offset the rates burden on both small businesses and pubs in particular and physical businesses generally compared to digital businesses.

We do not however consider that the proposed package of measures does represent a fair and balanced trade-off for ratepayers; they place too onerous and costly burden on the ratepayer and in particular on small businesses:

- Duty to Notify (DTN) VOA of changes to occupier and property
- Annual confirmation of information online
- Mandatory provision of rent and lease information including side letters
- Compliance regime with penalties

The effect on smaller businesses will be disproportionate compared to larger enterprises who will have the management/administrative capacity to effectively comply with them. Small businesses and in particular individual Pub Licensees do not have the time or expertise to be providing this information and will need to pay for professional support from an Accountant or Surveyor to complete these which significantly increase their administrative cost base. We calculate that the additional cost of engaging such professional support will be in the order of £500 per annum. For some marginal business this may be too costly resulting in non-completion and then fines with a detrimental impact on sustainability.

We take the opportunity to repeat our suggestion in previous consultations small businesses should be exempted from the bulk of these proposals.

Many small businesses do not pay rates due to qualifying for Small Business Rates Relief (SBRR). They do not engage with the rates process because they do not need to due to the nil liability. To impose a new regime of information supply, compliance, penalties etc will impose a new and onerous burden on them which will in reality produce a low level of engagement followed by fines and penalties. It will also produce additional work for the VOA resulting in the need to chase returns and administering the compliance regime.

There is already a clear basis for defining small business which is the £15,000 RV threshold established for the 2017 List. This will clearly need to be increased for future lists, but the reality is that the vast majority of properties qualifying as small business in 2017 list will still be a small business in any future list.

This simple but effective change will remove at a stroke the majority of small businesses from the onerous administrative burden the new policy measures will impose whilst at the same time generate immediate administrative savings for the VOA.

The proposed time limit of 30 days for DTN are considered far too short. Pubs mut be given a **minimum quarterly period for DTN**, and the specific reasons which trigger the obligation for DTN be much more specific and limited (or exempt pubs altogether). Many current triggers for DTN on rent changes would require ratepayers to notify despite it having no material impact on the determination of their Rateable Value.

The pub sector has relatively transitory occupation with short term tenancies common particularly in small community pubs by new start businesses. All new applicants to the trade for example are encouraged to take short term agreements before committing to substantive ones and indeed entry requirements are regulated through the Pub's Code.

We have looked at the typical pathway for a tenancy change and have calculated that this would involve up to 8 separate returns under DTN. Applying this to our pub estate could represent over 3,000 DTN returns to be completed by our licensees and administered by the VOA every year. This is both onerous and excessive.

The proposed time limits on challenges of 3 months is also considered to be insufficient for pubs. We recommend this is extended to 6 months if the VOA wish to avoid "blanket appeals" at commencement of the list.

The proposed investment relief is wholly inadequate being capped at 12 months. This is out of kilter with market practice where investment returns are often considered over a 5-year period reflecting the average length of tenancy agreement.

Joint investment by landlord and tenant is common in the industry sector and indeed at the heart of the tied pub sector. The proposed limitation of investment relief to the current occupier which together with the one-year cap, will act as **a significant disincentive for investment** by pub owners and occupiers alike; this is of course the complete opposite of the stated intent of the relief.

4. Pubs as a catalyst for growth.

The BBPA's submission to this consultation contains detailed analysis on the importance of pubs as a catalyst for growth to which we have contributed and are in full agreement.

Pubs support 831,500 jobs across the UK, £12.1 billion of wages, and £21.6 billion of gross value added across the country. They are a key part of the foundational economy, the essential building blocks of growth in our cities and towns. These pubs are serviced by 2,000 brewers across the UK, themselves key employers in communities throughout the UK.

The importance of the hospitality sector to GDP was clearly evident in the figures over the last 2 years of lockdowns and reopening. The sector played a crucial role in boosting economic activity since being permitted to reopen for trade in July 2020 and May 2021.

Admiral Taverns have a significant investment plan to develop and improve our pub estate which is backed and supported by our Investors. In the prior 2 financial years (affected by Covid-19), we have invested over £13m in 200 pubs. In the current financial year, we have spent or committed a further £16m in over 200 pubs. These investment figures exclude the 674 Hawthorn pubs acquired in August 2021 who have also invested similar amounts per pub. Such investment supports local employment, improves local communities and acts as a driver for further economic activity in the local area.

Future investment is wholly dependent on the continued viability of the sector of which having an affordable business rates system is a fundamental component part.

Admiral Taverns run numerous training courses every year to help our licensee partners develop their pub businesses and to broaden their skills set. Over the last two years we have run 40 licensee courses covering Marketing, Finance, Cellar Management and Food with over 600 attendees. In addition to this, we have had 150 pubs take up our e-learning package with CPL training who provide specialist training for the hospitality sector.

Further Queries

We hope you find this submission helpful in your inquiry into pubs' business rates.

We would be more than happy to provide further details and clarify any of the points raised in this response which should be directed to Andy Clifford, Property and Strategy Director.

Admiral Taverns 17th February 2022