Star Pubs & Bars submission: All Party Parliamentary Beer Group Business Rates Inquiry

We are pleased to have the opportunity to submit evidence to the Beer Group's business rates inquiry.

Should the opportunity arise we would be delighted to give oral evidence to the Group's inquiry.

We have four key asks which we'd draw the APPBG's attention to:

1. We are calling for a pub-specific multiplier, at a rate significantly lower than the standard multiplier, to reduce the disproportionate rates burden on our sector and lessen the major disadvantage the current system places.
2. Duty to Notify should occur annually, and the specific reasons which trigger the obligation should be much more specific and limited.
3. Take more small businesses out of scope of rates.
4. Increase funding and resource for the VOA so it can develop pub-specific expertise.

About Star Pubs & Bars

Through our pub business, Star Pubs & Bars, HEINEKEN UK owns 2,400 pubs. For 140 pubs which operate under our 'Just add talent' (JAT) model, Star is the rate payer meaning we have an annual bill of c. £2 million. For our Leased & Tennanted (L&T) pubs, our licensees last year paid c. £9 million, after reliefs. Next year, we expect that figure to increase to a minimum of £18 million. We are keen to support licensees looking to grow their business by removing potential cost barriers associated with their business rates bills, offering free access to the expertise of Dunlop Heywood.

We are committed to investing in the future of the great British pub. This year we have invested £38 million in over 700 of our pubs across the UK. Over the last 8 years, we've now invested a total of £255.5 million in upgrading our pubs – helping our licensees build new kitchens to develop their food menus, offer great coffee and better spaces so that people can come together in their local communities.

The pandemic has been an exceptionally tough time for our industry. To help our Star Pubs & Bars licensees HEINEKEN UK has invested £62 million in rent reductions to help with cash flow during lockdowns. Health and safety guidance, easy-to-deliver food menus and £250,000 on safety and social distancing point of sale materials were available for our licensees. This support is in addition to our funded British Institute of Innkeeping (BII) memberships for our core leased and tenanted estate to give licensees access to additional services, professional impartial advice and sales building support. We believe the pandemic will show the resilience of the great British pub and especially the leased and tenanted model. We also welcome the support the Government gave our industry in the Budget - this support will help to ensure that our pubs have the best opportunity to thrive.

The case for reforming business rates

Per pound of turnover, pubs pay more in business rates than any other sector. According to analysis by the British Beer & Pub Association (BBPA), the 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.

Unlike the vast majority of sectors, pubs are rated on a turnover instead of square footage and a huge part of our turnover is made up of taxes and regulatory costs. As well as this, any capital investment in pubs generating greater additional turnover is effectively penalised by a higher business rates bill.

The Government recognised the particular situation for pubs in the immediate years prior to the pandemic with either a specific pub sector relief and/or a wider retail relief, which included pubs. For example, according to the BBPA, in 2019/20, pubs with a rateable value up to £51k had their bills discounted by one-third from this relief worth up to £8,500. Since March 2020, pubs and retail businesses have been supported with 100% relief and following the October budget 2021, in England, with a 50% relief, albeit capped at £110,000 per business. When the current rates holiday ends as scheduled on 1st April, publicans will see costs rise by thousands of pounds overnight. Indeed, the average pubs rates bill for 2023/4 will be £18,000.

The system unfairly backs businesses without a physical presence. Digital businesses who use the same local infrastructure, including roads and the local public services, are not paying their fair share compared with pubs. Pubs cannot fully move online and by their very nature are inefficient users of space. The Royal Society of Public Health has pointed to the advantageous climate for digital businesses under the current system as a contributing factor to the decline of high-streets across the country[1].

Pubs also contribute significantly more to a communities social fabric than digital businesses advantaged under the current system. Research by the Onward think tank evidences this, demonstrating that pubs, as well as local independent businesses and convenience stores, are the only categories of physical infrastructure which enhance an areas social fabric[2]. Pubs' role in tackling loneliness is a key metric in this context. Heineken and Pub is the Hub's *Join Inn – Last Orders for Loneliness*[3] iniative has demonstrate the value of a local pub. in this regard. It matters what business occupies a particular space as they impact the social fabric of the UK differently – the pub is the heart of the community, preventing loneliness and isolation. With the aforementioned in mind, supporting pubs should be a cornerstone of the Government's plans to level up.

These factors have led to a situation where pubs are hit harder than other sectors. Indeed, after the 2017 revaluation, the average rateable value for pubs rose further compared to the average across all sectors. A much-improved system is required and hence we are very supportive of the Government's announcement to fundamentally review business rates. The trajectory of this tax rate is on an unsustainable path must be reduced for pubs to survive and thrive. Both the Spring and Autumn Budget gave the pub industry a very welcome short-term relief, including a partial extension to the business rates holiday. In the medium to long-term, however, the future of the pub as a cornerstone of community life remains under existential threat without additional well-targeted support.

Towards a new system

According to BBPA analysis, the multiplier has increased to a staggering 51.2p today from a more manageable 34.8p in 1990/91. For the long-term viability of the sector and our post-COVID recovery, this trajectory is unsustainable. We would therefore welcome a pub-specific multiplier, at a rate significantly lower than the standard multiplier. The new rate should reflect the unique role pubs play in communities, especially in comparison with retail and online businesses. More broadly, the new rate should start to bring parity between turnover and tax-burden.

The move to three-yearly revaluations highlighted in Treasury's Business Rates Review should lead to more accurate rates, lessen dramatic changes from one revaluation period to the next, and improve transparency on how rates are established. However, we have serious concerns that the proposed 30 day duty to notify provision proposed by the Treasury will be burdensome, and would like to see a significantly lighter-touch approach. For example, in pubs where we have a 'tied' arrangement we will regularly make improvements to the premises or change small details of our agreements with licensees – with every alternation requiring a separate submission within 30 days. Pubs should only be required to provide Duty to Notify (DTN) annually, and reasons which trigger a DTN should be much more specific and limited.

In the shorter-term, we support the BBPA's call to "to take more small businesses out of scope of rates and smooth the cliff-edges in the system". An increase in the 100% SBRR threshold in England from £12,000 to £15,000 (with a gentler taper to the full rate subsequently) would take over one hundred thousand more small businesses out of the rates system altogether at a very small proportion of the total business rates bill, including 2,700 pubs.

Moving forward, we also back the BBPA's call for "increased funding and resource" for the Valuations Office Agency (VOA) so it can develop pub-specific expertise. However, we echo their concern that investment in the VOA should be to improve valuers knowledge of pubs, instead of further digitalising services. The service offered by the VOA and Billing Authorities is already complex and an area where we provide significant support to our licensees in navigating. Any steps to further digitalise services must recognise that many rural pubss do not have access to the internet or publicans with advanced digital capabilities.

1 Royal Society of Public Health: Health on the high street: Running on empty
2 The-State-of-our-Social-Fabric.pdf (ukonward.com) (pg. 32)
3 Pub is the Hub and HEINEKEN UK call last orders for loneliness through pubs | Heineken UK