



## **Evidence Submitted by Save UK Pubs to the Commons Select Committee on the impact of Business Rates on business**

### **Summary:**

1. Unlike most businesses, pubs business rates are turnover based and not square footage. Turnover is then adjusted by the Valuation Office Agency (VOA), taking into consideration modifiers described in the VOA 2017 guidelines, to reflect Fair Maintainable Trade.
2. Save UK Pubs has analysed valuation data from 1180 pubs around the UK. The data suggests that the VOA did not apply, or did not consistently apply, the Fair Maintainable Trade modifiers in accordance with its published 2017 guidelines, prior to issuing the 2017 rateable values.
3. The data that we have reviewed suggests that, on average, 30% of the pubs had increases of +50% in their 2017 rateable values, with circa 10% seeing increases exceeding 100% and up to as high as 600%. Based on feedback from landlords in several of the areas we reviewed<sup>1</sup>, and our own knowledge, the majority of the pubs with RV increases of +50% are the high performing operator/s in their village, town, city and residential neighbourhood etc. Concurrent with issuing the 2017 rateable values, the VOA closed local offices (losing local knowledge on trading history/pubs) and moved to an online check, challenge and appeal process, which currently takes up to 3 years from start to finish.<sup>2</sup> This is too long a time period for an appeal process in any circumstance, let alone for those pubs struggling to remain afloat following an extraordinary rate increase.
4. Save UK Pubs proposes:
  - An amendment to the budget so that the proposed rate relief for small businesses with a rateable value of £51,000 or less will apply to all pubs for the first £51,000, whatever their total rateable value<sup>3</sup>
  - A freeze in the next budget on current business rate levels (payable 2018/2019) such that there is no further increases to rates until the next review in 2022.

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<sup>1</sup> Including the Chairman of the Brighton & Hove Licensee Association.

<sup>2</sup> One St Albans Pub, the Boot, has been waiting almost 2 years and was advised by the VOA that no one had touched their case for over 12 months.

<sup>3</sup> Pubs have a different rateable value model based on turnover, not square footage. It's common sense that business rate relief for pubs would take this into consideration.

- A review of the business rate tax formula and the VOA Fair Market Value implementation system/s, in consultation with Save UK Pubs (on behalf of the 15,000 independent tied landlords), BBPA, CAMRA HQ etc. (One Pub Voice Group) nationally in order to develop a transparent, workable system which takes into consideration the various pub ownership models, does not penalise those pubs which operate more efficiently and permits a reasonable profit margin
- A fair/transparent pub RV system where valuations and appeals are streamlined and timely.

### **Background:**

5. The issue we would like to discuss is that, in 2017, UK pubs were affected by an unsustainable change in their ratable values.
6. In October 2018, local MP, Anne Main, met with a group of St Albans independent landlords and their fellow campaign supporters from the St Albans community.
7. The landlords told Anne that many of their pubs were on the brink of closing because of the impact of the 2017 business rate increases. Please see <https://www.saveukpubs.com/video/save-st-albans-pubs>.
8. Anne set up a meeting with Treasury (Robert Jenrick, MP) mid-January and Save St Albans Pubs presented case studies to Treasury, requested urgent action to stop closures.
9. Mr Jenrick was most courteous to us and listened carefully to us and we are most grateful to him and his team for that.
10. We highlighted to Mr Jenrick that we felt there was either an issue with FMT, or with the VOA implementation of FMT. That for St Albans, the 2017 RV's were simply 2015 turnover based, that being the only data collected by the VOA prior to issuing the 2017 RV's. We informed the Treasury that we were hearing via social media and news that the issues were national. Treasury understandably requested a broader perspective than St Albans. In response to Treasury's understandable concern in this regard:
  - a. Save St Albans Pubs reached out to other areas nationally and rebranded as Save UK Pubs, which has been very beneficial to our cause;
  - b. we have now researched 1180 pubs around the country;<sup>4</sup>
  - c. we have and found that, consistent with the finding in St Albans, 30% of the pubs reviewed had increases of +30%-50% in business rates, with some increases as high as 300-600%<sup>5</sup>;
  - d. there is no apparent logic to explain why some pubs had a +30% increase whereas others nearby experienced +600%.;
  - e. we reported the findings from the analysis to Treasury late February, 2019;
  - f. the source data for the analysis is publicly available on the government's website at <https://www.tax.service.gov.uk/business-rates-find/search>;
  - g. Mr Jenrick also suggested that we involve CAMRA HQ and BBPA. They are now on board too, we met with them today in St Albans and we will be working on a coordinated effort towards a solution to fix the FMT implementation issues described in this report. However, we don't want to lose sight of the plight of the 15,000 hard-

<sup>4</sup> The areas we have analysed are: St Albans District, Brighton & Hove, Marlow, Maidenhead, Lewes, Suffolk Coast, Tenby, Newark, Burnley, Cardiff, Mid Devon, East Devon. We regard the prospect that these data do not give a reasonably representative snapshot of the picture for the whole of England to be slender. However, if you would like us to assess more areas, please tell us which.

<sup>5</sup> <https://www.saveukpubs.com/case-studies/>

hit independent landlords our campaign represents.

11. Because we could see no discernable logic to explain the range of increases of 30% in one pub and 600% in another nearby, we asked Treasury if the VOA had possibly omitted to apply certain parameters, which are supposed to be included in the valuation process. Mr Jenrick responded early March, 2019, by letter, to inform us, as follows:

Treasury's response	The issue Treasury's response leaves us with
The VOA <sup>6</sup> had normalised revenues in accordance with the required procedure and Mr Jenrick was confident that it had applied the correct approach.	<ul style="list-style-type: none"> <li>• The issues this leaves us with is, as noted above, the 2017 revised valuations are all over the place (as we have said, up to 600% increases for no immediately obvious reasons).</li> <li>• It seems likely to us that something has gone wrong with how the 2017 re-valuation process was applied.</li> </ul>
Pubs would have to appeal unfair re-valuations through a new online check, challenge and appeal process.	<ul style="list-style-type: none"> <li>• We agree that pubs have been slow to appeal and, in fact, many probably won't.</li> <li>• This is because the process might currently take 2-3 years from start to finish and the general assumption among pub operators is that that would be too late to save them, they might get higher increases, they don't know how to because there is a new system and/or they can't afford to pay 20% fees to third party agents.</li> <li>• Also, concurrent with the revised 2017 ratable valuations, the VOA closed local offices and centralized which has compounded the issue.</li> </ul>

12. We did not want to immediately try to refute all of the points in Treasury's response. What seemed to us to be more productive was to seek for Treasury to agree one foundational issue and then for us all to address the other points together. Accordingly:
13. We decided that the main issue to focus on first was the enormous and unexplained variations in the revised pub valuations (as noted above, up to 600%);
14. We therefore sent a brief letter to Mr Jenrick and the Treasury on March 28<sup>th</sup>, 2019 (please see Appendix 1);
- a. it contains a single graph with the valuation data for one area (Brighton and Hove);
  - b. however, most areas are similar;
  - c. as noted above, the data we used is publicly available and Treasury can check our analysis for Brighton and Hove and look at other areas to confirm that a similar result applies to most other areas;<sup>7</sup>
  - d. we await Mr Jenrick's kind response.
15. Basically, we do not know why the ratable valuations have increased so much and so erratically, we just know they have, it appears to us that it might be an issue with the implementation by the VOA of the FMT guidelines and we need to get to the bottom of that and find a solution. Please see our further notes attached as Appendix 2.
16. Pubs can't trade their way out of the increase in rates:

<sup>6</sup> The Valuation Office Agency.

<sup>7</sup> <https://www.tax.service.gov.uk/business-rates-find/search>.

- a. most are well-conceived, well run, trading at capacity, but operating on 5% - 7.5% profit margins. According to 2013 data from CAMRA, the average dividend/salary for the tied independent pub operator is £15,000 before tax;
  - b. the rates increase immediately wiped out 30% -50% of that small profit;
  - c. for small operators, their profits service debt repayments and the modest amount left over is the operator's only remuneration. Pushing that below viability makes the pub unviable and unsellable;
  - d. please see the case study for the White Hart Tap attached as Appendix 3. Again, we are not seeking to raise an issue for one pub. Rather, we are seeking to use one pub as an example of a general pattern and take matters from there, the alternative being flooding you with data.
17. The net result is that committed, entrepreneurial people are losing their businesses, their health, their savings and their retirement. Consequently:
- a. our communities are losing meeting places, jobs and the support for local charities, sports, and causes that many pubs provide;
  - b. local government is losing the very business rates that the 2017 valuations were intended to secure;
  - c. central government is losing VAT, corporation taxes, national insurance and personal income tax from the pubs directly and the business which support them.
18. Worse hit are the independent, tied landlords who do not own the premises/land. Their profit margins are narrower than the free of tie pubs and they do not benefit from appreciating property prices. There are approximately 15,000 of them in the UK. The FMT guidelines do not appear to take into consideration the different pub ownership models and assess all pubs on a freehold assumption basis.
19. We ask for urgent action to implement the proposed solutions to stop further closures.<sup>8</sup>

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<sup>8</sup> 2 tied pubs in St Albans have closed in the past 10 weeks, one of which was the last community pub left in a deprived neighbourhood.

**APPENDIX 1**  
**Notes on Rateable Value for Pubs**

- From 2017, the rateable value for pubs is based upon 'fair maintainable turnover'.
- Fair maintainable turnover is primarily driven by pub turnover (less VAT).
- There are other factors and guidelines that are to also be taken into consideration including an adjustment to a 'reasonably efficient' standard and the type of pub operation. Thus, if the pub is being really well-run with lots of add-ons, the fair maintainable value should be reduced whereas less tuned-in operators would see an increase. This process is referred to as normalizing.
- Those are the main guidelines, but the details of how they have been implemented is not disclosed.
- Based on the re-valuations being all over the place (with 600% increases). However, using Occam's Razor,<sup>9</sup> we suspect that the guidelines simply may not have been fully implemented. For example:
  - as far as we are aware, no valuers actually visited our community pubs to see their operations;
  - therefore, pubs were not asked about their type of pub operations, proximity to competitors, number of employees, square footage, trading history;
  - instead our pubs were asked to complete a form showing turnover and the proportion of wet and dry sales and, following that, the 2017 rateable values were released;
  - furthermore, Mr Jenrick confirmed to Anne Main and the campaign at the meeting in January that that the VOA lacks resource so applies a national average and then rely on an appeals process to discover problems. Mr Jenrick's letter confirming that point is attached as Appendix 4.
- There has been no regional impact assessment which might have highlighted the anomalies.
- The current system can be gamed. For example:
  - Restaurants are still valued on square footage although they may sell less food and more alcohol than some of our pubs. Good for them, but that's an unfair market distortion.
  - If a landlord owns the pub freehold and has a kitchen, they can file for a change of use to become a restaurant, without actually making any changes, i.e. they would still look like a pub and quack like a pub but would have lower rates.
  - Some shop premises, which have been repurposed into bars/pubs are still being valued as off-licenses on square footage.
  - The rateable value calculation is also required takes into account property valuations in the area. Thus, pubs in expensive city centre areas have to pay more rates without being able to pass that through to customers. While some pubs have a high rateable value, they are still small businesses in terms of physical size,

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<sup>9</sup> The simplest idea, explaining everything, is probably correct.

number of employees and profitability and square footage might remain a more suitable basis for valuing city center pubs.

- In passing, we understand that the Palace of Westminster is rates-free. Therefore, bars within Parliament can sell drinks more cheaply than surrounding pubs.
- In other words, the 2017 change in the ratable valuation methodology has introduced inappropriate incentives, also market distortions.

## **Appendix 2**

### **Case Study: White Hart Tap St Albans<sup>10</sup>**

When we purchased and took over the lease, the pub was a sub-standard operation and we sought to push the business forward by an additional investment by us of circa £45,000 in order to be able to offer an attractive neighborhood pub.

- The square footage is approximately 50sqm
- There is a garden.
- We offer drink and food.
- We are actively engaged in the community, working collaboratively with other pubs and local businesses to participate in festivals, we put on and pay for music and other events and we give money, product and time to local charities and not for profits.
- The annual turnover is normally £550k net of VAT and we are the top performing pub in our residential neighbourhood.
- We employ 10 people (some are part time) and our annual payroll is £120k
- The annual profits are £60k before debt repayment (for debt which funded the purchase/investment in improvements).
- The annual dividends pre-tax are circa £24k, i.e. £12k for each business partner and we take no other salary.

#### **Taxes we contribute**

We pay £60k in VAT, £24k in payroll tax, the rates which are the subject of this note and also our personal income tax on our distribution.

#### **Rateable values**

Business rates for pubs are based on turnover, not square footage. The VOA methodology purports to adjust turnover by certain parameters, including normalising for a reasonably efficient pub operator (that is, ignoring any income above normal expectations due to specific operator skill/experience). Therefore, if applied fairly, it should not have included the improvements our investment bought about. However, the rateable value methodology is not transparent and rateable value changed in 2017, we are not sure why. The only information that the VOA collected from us ahead of issuing the 2017 RV was our turnover, not our trading history. We are the highest performing pub of the circa 5 pubs in or near to our residential neighbourhood. It is clear that our turnover was not normalised to bring it back to that of a reasonably efficient operator, prior to the issuing of the 2017 RV. Our rateable value is less than £51,000, per the 2018 budget, we will be entitled to business rate relief, however the impact of this relief does not fully offset the extraordinary increase. The key impact of the change in rateable value is:

- Our rateable value increased from £30,000 from 2010 to £40,750 from 2017 and those figures because they are available for you to confirm on <https://www.gov.uk/correct-your-business-rates>

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<sup>10</sup> We have more case studies to provide if requested, however we understand that CAMRA has collected 600 so we do not wish to overload Treasury.

- Our rates payable have thereby increased from £14,550 to £19,600, an increase of £5,050 phased in over 5 years.
- As noted above, our annual profits are normally about £60,000 and distributable profits £24,000, i.e. about £12,000 per partner.

Therefore, the rates increase is an enormous proportion of this and seriously affects our viability. To cover the incremental rate increase, we would have to sell an additional 1375 pints per year. If we sell 1375 pints, the beer tax reduction relief on those pints equates to (2 pence per pint = £27.50). That is, the beer tax reduction provides little/no practical relief.

Alternatively, if we put our prices up, our customers will go down the road to another pub. Therefore, we can't put prices up, we will lose customers, so we are going to have to do the following:

1. staff reductions (we currently employ 10 people (some are part time) with an annual payroll of £120,000)
2. reduction in capital investment

Staff reductions would reduce the quality of our offering immediately and would be likely to exacerbate profitability. Reducing capital investment would take longer to impact our offering but would do so fairly soon and we should not be making business investment decisions based upon taxes and taxes should not be a barrier to survival for small business owners.

We could also appeal against the current rates valuation. Due to the VOA closing down local offices and implementing an online check and challenge, In the current environment it will take 2- 3 years to check, then challenge, then appeal the 2017 rate increase, unless we hire a third party (to whom we will have to pay 20-30% in cash of any rate savings), during which time period we will likely have to close down in any case. Therefore, the appeal route is not viable.

## **Requests**

We ask that our government please acts urgently to implement:

- An amendment to the budget so that the proposed tax relief for small businesses with rateable values less than £51,000 applies across the board to all pubs for the first £51,000 in ratable values.
- Concurrent with a freeze on business rates such that there is no further increases to rates until 2022.
- A review of the business rate tax formula, in consultation with Save St Albans Pubs /Save UK Pubs who represent the small independent landlords nationally in order to develop a transparent business rate model that:
  - takes into consideration the various pub ownership models
  - does not penalise the pubs which operate more efficiently than the norm, nor subsidise the pubs which operate less efficiently than the norm
  - lowers taxes and
  - is fair/transparent with a streamlined, timely appeals process.

This will provide a more level playing field, allow continued employment and reduce barriers

for entry and increasing investment by small business owners.

Yours faithfully,  
Andrew Meredith and Stephen  
McConnell 91 Sopwell Lane, St Albans,  
AL1 1RN Phone 01727850540.

**Appendix 3**  
**Letter from Robert Jenrick, MP by email March 2<sup>nd</sup>, 2019**



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Mandy McNeil  
Campaign Manager  
Save UK Pubs

1st March 2019

Dear Mandy,

Thank you for your joining my meeting with Anne Main MP on 14 January, and for your letter of 4 February providing further detail of your campaign.

First, let me again assure you of the Government's continued commitment to the pubs sector, which makes a valuable contribution to communities and to the economy.

In terms of business rates, as you know the Government provided a £1,000 discount for pubs with a rateable value (RV) below £100,000 in 2017-18 and 2018-19. From April 2019, pubs will benefit from the new retail discount announced at Budget 2018, which will cut the bills of retail properties with a rateable value below £51,000 by one third for two years. This discount is worth almost £900m over two years.

You suggest reforming the discount's eligibility threshold so higher value pubs, including in St Albans, can benefit. The Government set the threshold at £51,000 RV as it covers around 90% of retail property across England, and targets support where we think it is most needed, that is, small, independent retailers. Furthermore, business rates are a key source of income for local government, funding essential services such as adult social care and children's services, and this must be taken into account when considering further or more generous reliefs.

The retail discount is part of Our Plan for the High Street, a £1.5bn package of support to help high streets and town centres evolve as consumer habits change. Town centre businesses such as pubs will benefit from the additional measures and investment the Plan will bring.

Pubs are also benefitting from wider action on business rates. Measures announced since Budget 2016 are saving businesses more than £13 billion over the next five years, and include switching from RPI to CPI indexation, raising the threshold of the standard multiplier, and making Small Business Rate Relief more generous, so that 655,000 of the smallest businesses pay no rates at all.

You also note that many pubs faced RV increases at the 2017 revaluation. Revaluation is an important part of the business rates system. It maintains fairness and accuracy of bills by updating the RVs of all non-domestic property in England, redistributing the burden of rates to reflect relative changes in the property market. While this will lead to increases

in bills for some ratepayers, many will also benefit from reductions. Furthermore, as the multiplier is adjusted at revaluation, an increase in RV will not directly translate into an equivalent bill increase. The Government introduced a £3.6 billion transitional relief scheme and additional measures worth £435 million to support those ratepayers facing bill increases. The next revaluation will take place in 2021.

Furthermore, regarding the way pubs are valued for business rates, the Valuation Office Agency (VOA) has not changed its approach since the last revaluation in 2010, using Fair Maintainable Turnover (FMT), a widely-accepted method in the sector. As for most non-domestic properties, including offices and shops, the VOA uses market evidence to set the RV of pubs. This means the VOA observes how the open market values pubs. Unlike for shops or offices, however, the RV of pubs is measured using FMT rather than floorspace as a basis of reference. This reflects how the open market values pubs, namely, not just using size, location and property quality, but also based on potential turnover. FMT is calculated based on the business being run by a reasonably efficient operator responding to normal trading practices, ignoring any income above normal expectations that is due to the skill or experience of the operator. The VOA discussed its approach and the data it used for the 2017 revaluation with the sector, and its valuation guide was agreed with the British Beer and Pubs Association.

As you can appreciate, I am unable to discuss the tax affairs of individual businesses, and the VOA carries out its valuation responsibilities independently of Ministers. However, let me assure you that the VOA is confident their assessment of pubs' RV is supported by robust evidence. While all valuations require some degree of professional judgement, the VOA values pubs in compliance with guidance set out by the Royal Institution of Chartered Surveyors and in accordance with its 2017 valuation guide. The VOA is happy to answer any queries on its valuation approaches.

Any concerns with individual RVs should be raised through the VOA's Check Challenge Appeal system (CCA). CCA was introduced in 2017 as the old appeal system needed reform: it encouraged speculative appeals, with around 70% not resulting in any valuation change. CCA allows ratepayers to resolve their concerns at the right level, without the automatic need for an appeal. Of the remaining appeals under the old system not held up by litigation, 61% are less than two years old, and the VOA is on course to clear them by September 2019. The VOA works closely with the independent Valuation Tribunal Service to resolve appeals as quickly as possible.

It should also be noted that as business rates are devolved, business rates policy outside England is a matter for the relevant Devolved Administration.

In addition, you raise concerns about beer duty. We do not recognise that there has been a 43% increase in beer duty rates from 2010 to 2017. Our calculations show beer duty has increased by around 10% from 2010 levels, which, thanks to the Government's decisions to support pubs by cutting or freezing beer duty at six of the last seven fiscal events, has meant a real term reduction in beer duty rates. Cuts and freezes to alcohol duty since 2013 have provided over £4 billion in support for the alcoholic drink sector, and have made the typical pint of beer in 2019 14p cheaper than it would have been since ending the beer duty escalator.

Thank you again for taking the trouble to make us aware of these concerns. I am copying this letter to Anne Main MP.

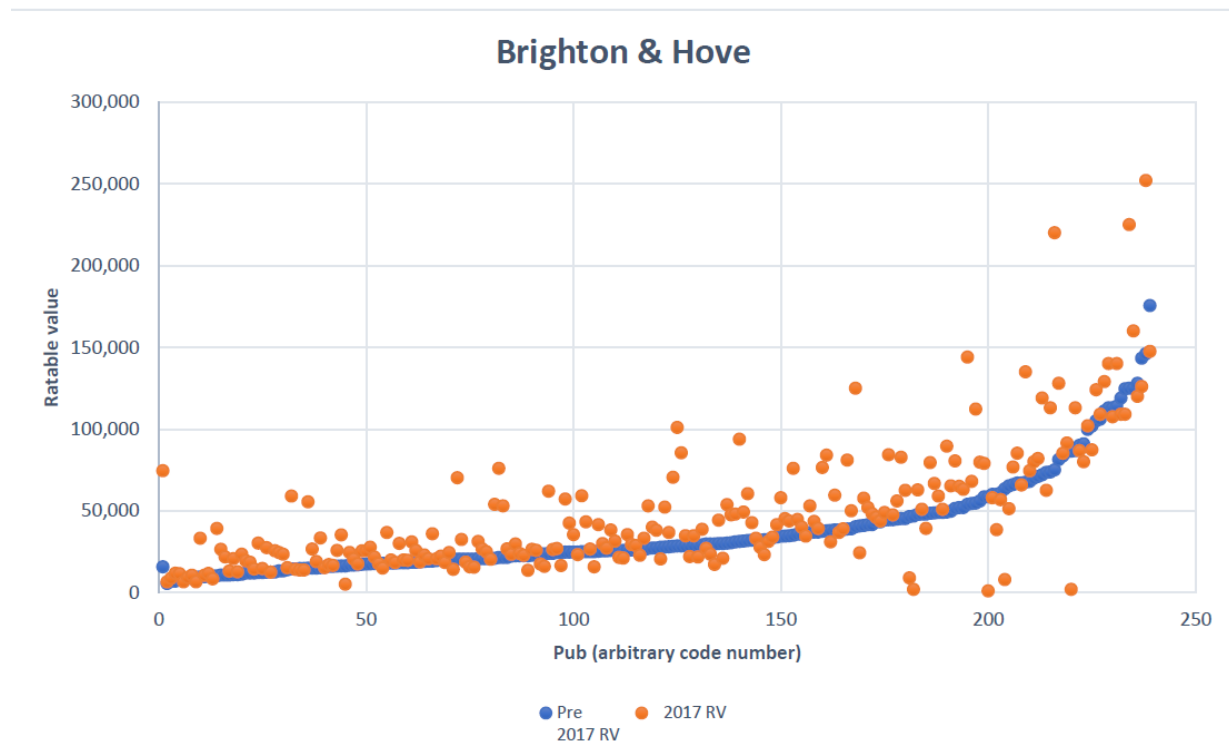
Yours ever,  
Robert

ROBERT JENRICK

**Appendix 4**  
**Letter from Save UK Pubs sent to Robert Jenrick, MP by email March 28<sup>th</sup>, 2019**

Dear Mr Jenrick,

Thank you very much for your letter of March 3<sup>rd</sup> 2019, which we have carefully read and found informative. We greatly appreciate the results that you have achieved to assist small businesses, including pubs. We have a number of detailed counterpoints that we would like to discuss. However, before we do so, we would like to present the following to you.



If we may, we would like to walk you through the Brighton & Hove graph:

- We have chosen Brighton & Hove as a starting point, but the vast majority of areas around the country show a similar pattern.
- The blue points are the rateable values for all the pubs in Brighton & Hove from 2010, as recorded in <https://www.tax.service.gov.uk/business-rates-find/search>. The blue points are rising continuously, because we have arranged the pubs in ascending order of 2010 valuation to act as the baseline.
- The orange points are the 2017 valuations.
- It is clear that:
  - The average valuation has increased.
  - The valuations are all over the place, with large swings up and down, more up.

It seems to us that this graphical representation more or less contains our whole dilemma. We can send you further data if that would help. However, would you agree with us that, prima facie, there appears to be an issue to be addressed?

Kind Regards  
Mandy McNeil  
On behalf of  
Save UK Pubs  
cc:  
Anne Main

## Appendix 5 Additional Graphs

In early March, MP Robert Jenrick wrote to Save UK Pubs to assure us that the VOA methodology adjusts turnover to FMT by certain parameters, including normalising for a reasonably efficient pub operator (that is, ignoring any income above normal expectations due to specific operator skill/experience). That the VOA was confident in its approach.

Therefore, if applied fairly, FMT for 2017 RV's should not have included any revenue improvements bought about by extraordinary capital investment, winning national awards etc). However, methodology is not transparent and rateable values changed dramatically in 2017. We are not sure why.

- The blue points are rising continuously, because we have arranged the pubs in ascending order of 2010 valuation to act as the baseline.
- The orange points are the 2017 valuations.

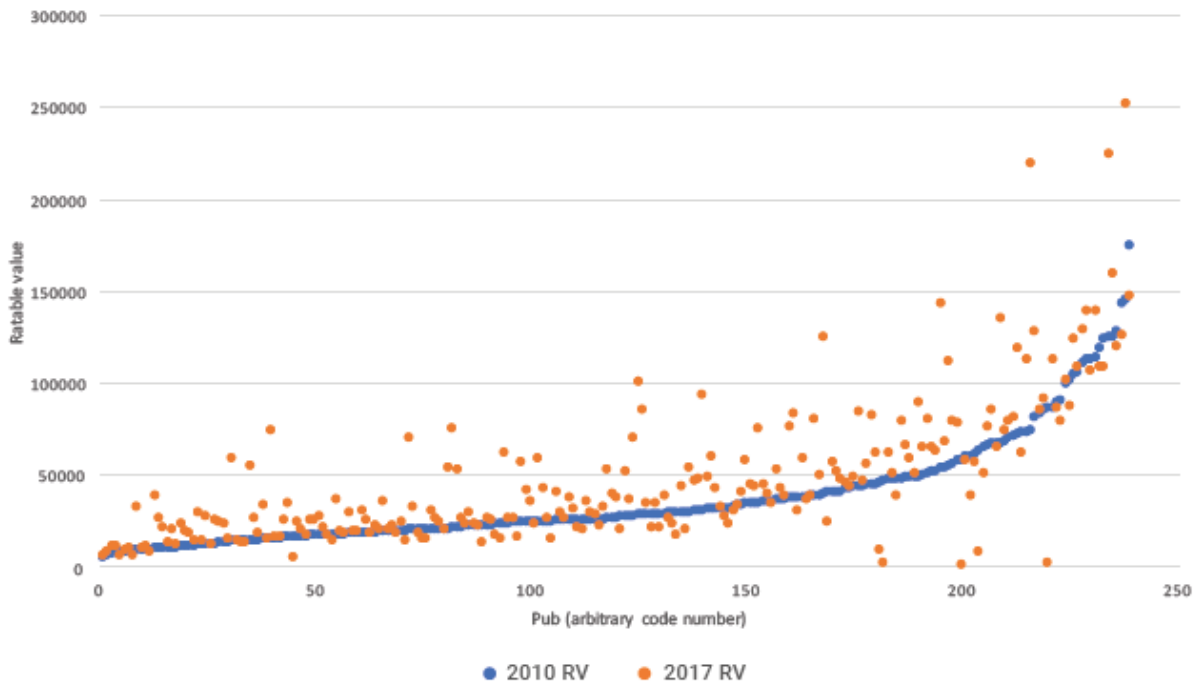
It is clear that:

- The average valuation has increased.
- The valuations are all over the place, with large swings up and down, more up.

We also have empirical data which shows that the pubs with the largest swings up are the high performing pubs in their respective neighbourhoods (whether city, town, village or rural). On average 30% of the + 1200 pubs we reviewed saw increases of +50%

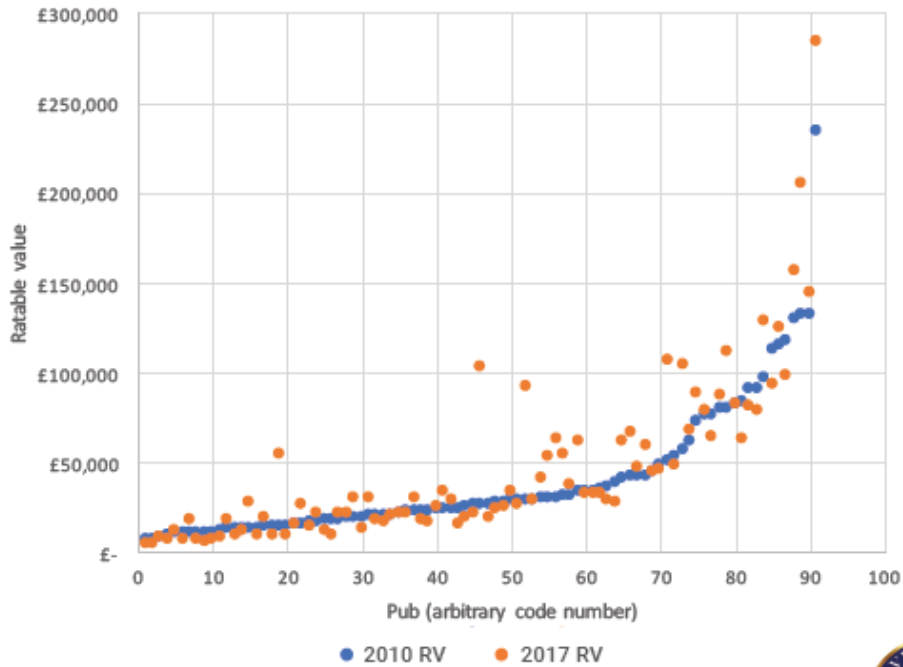
It seems to us that this graphical representation more or less contains our whole dilemma and that, prima facie, there appears to be an issue to be addressed.

# Brighton and Hove

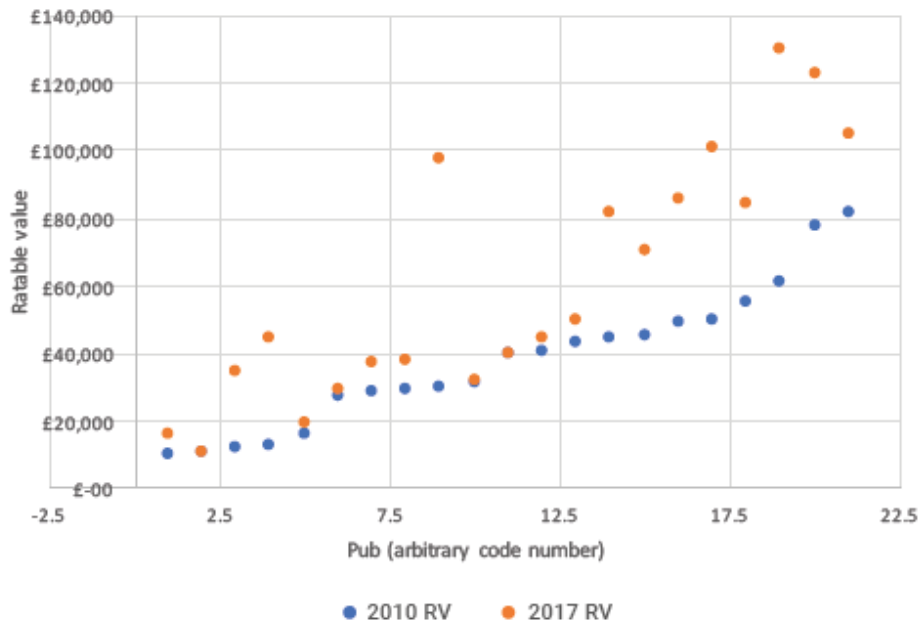


# St Albans District

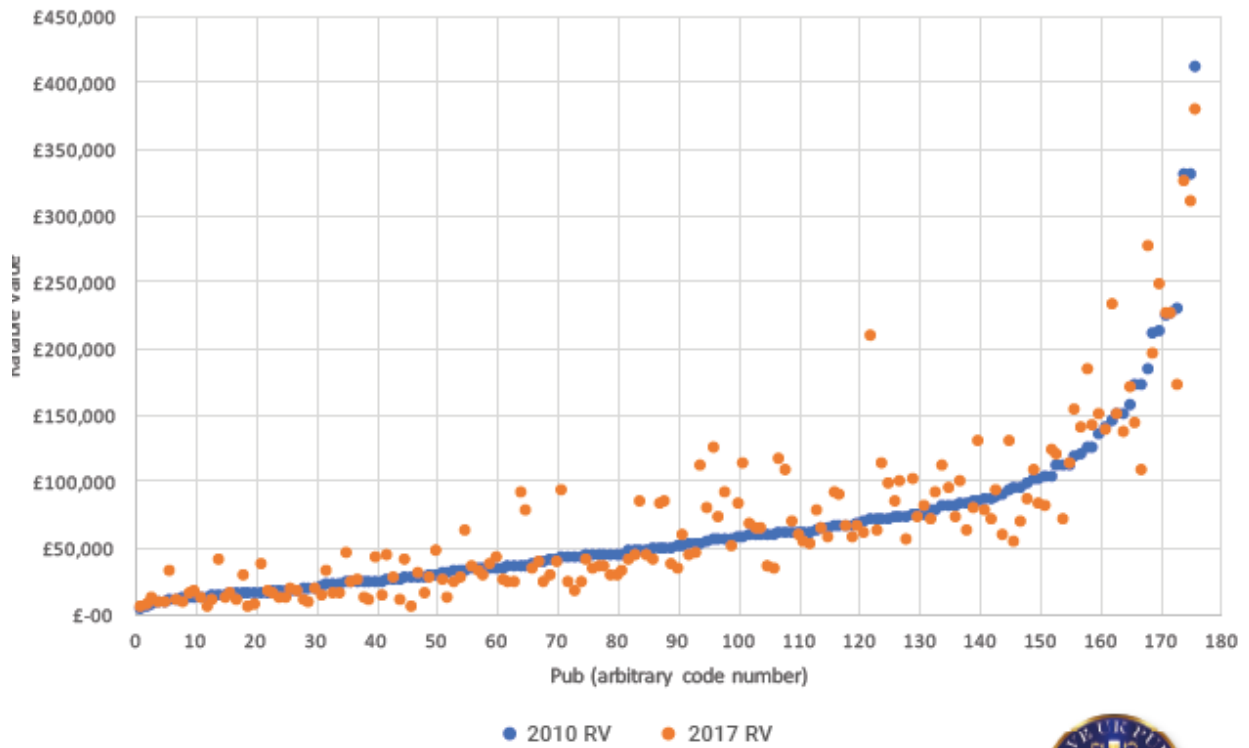
(including Harpenden, Wheathampstead, London Colney, Bricketwood, Redbourn)



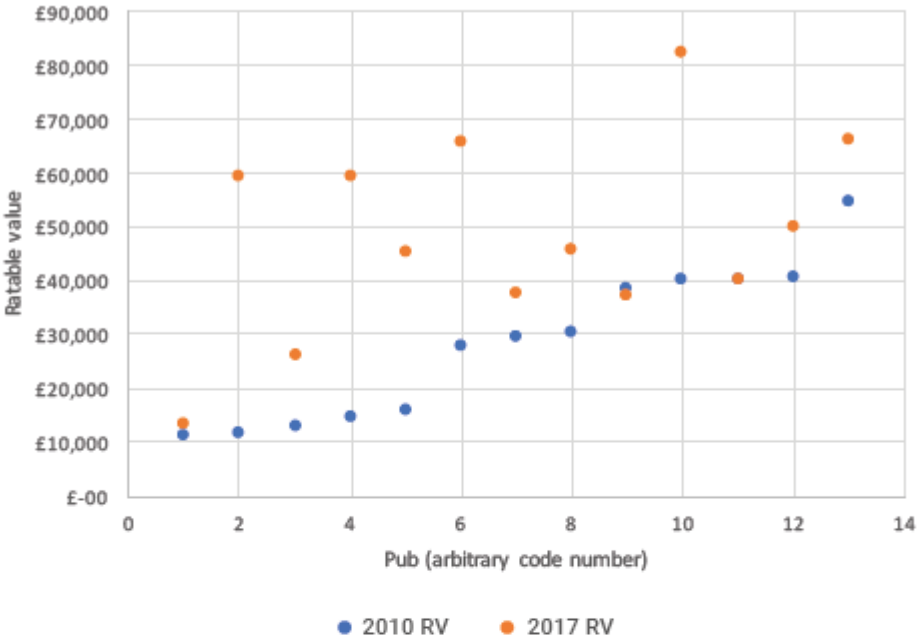
# Marlow



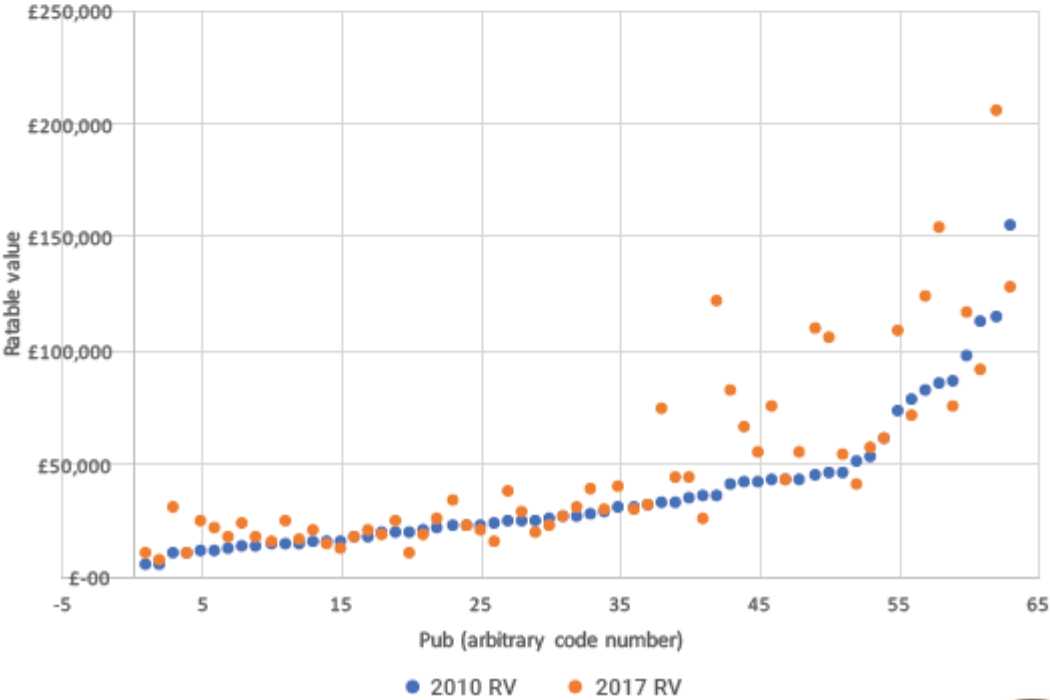
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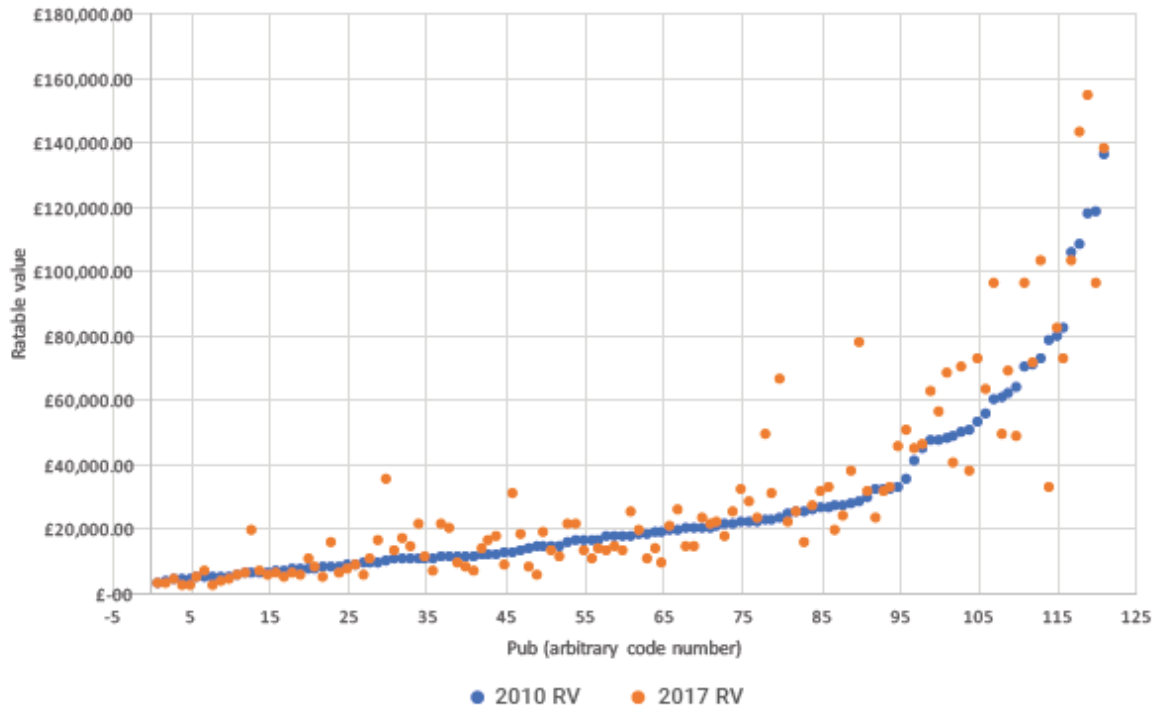
# Lewes, Sussex



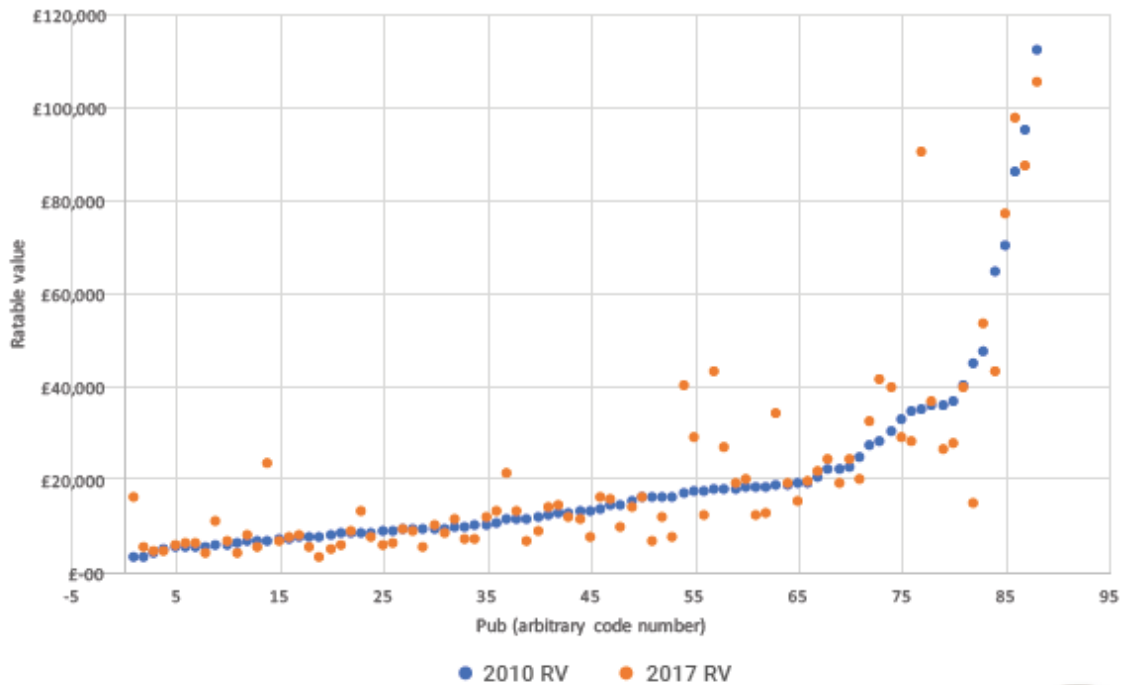
# Maidenhead, Bucks



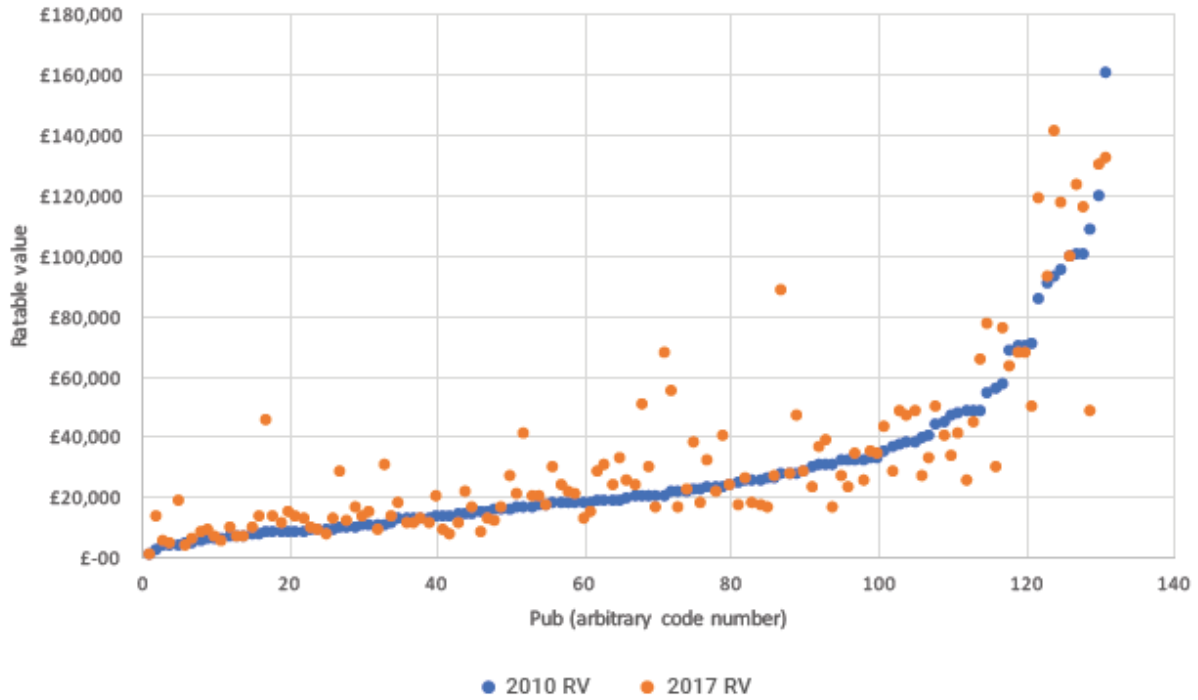
# Suffolk Coast



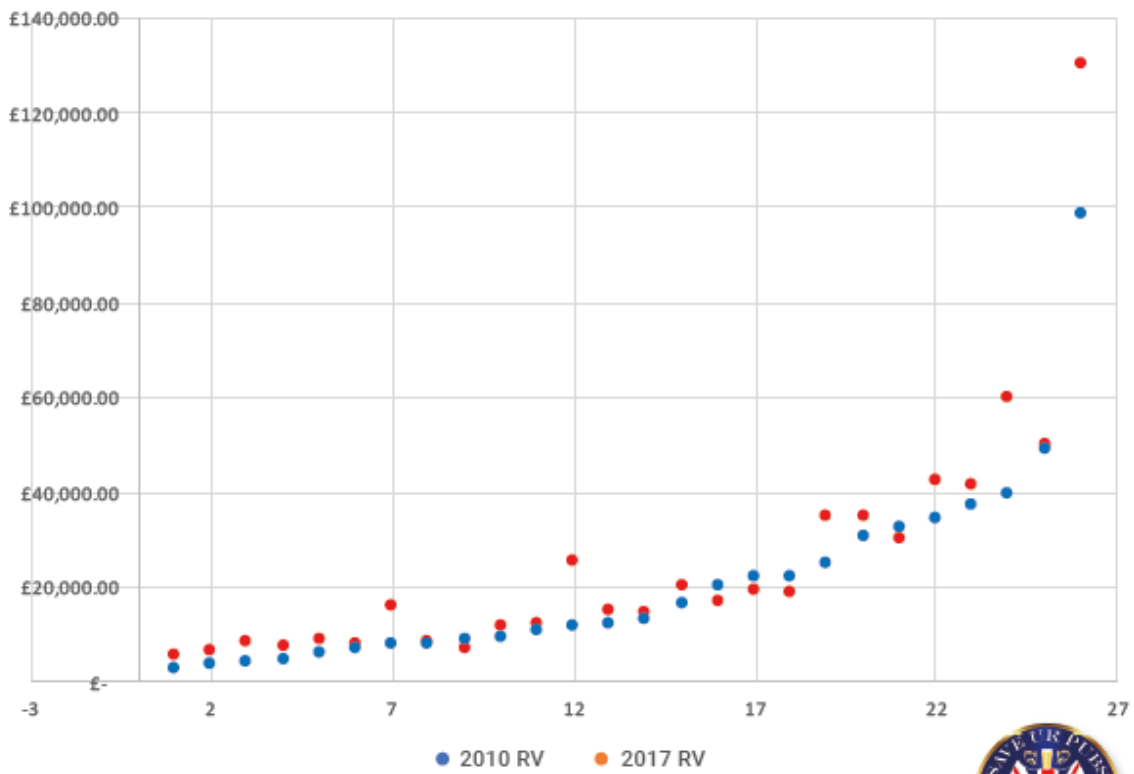
# Mid Devon



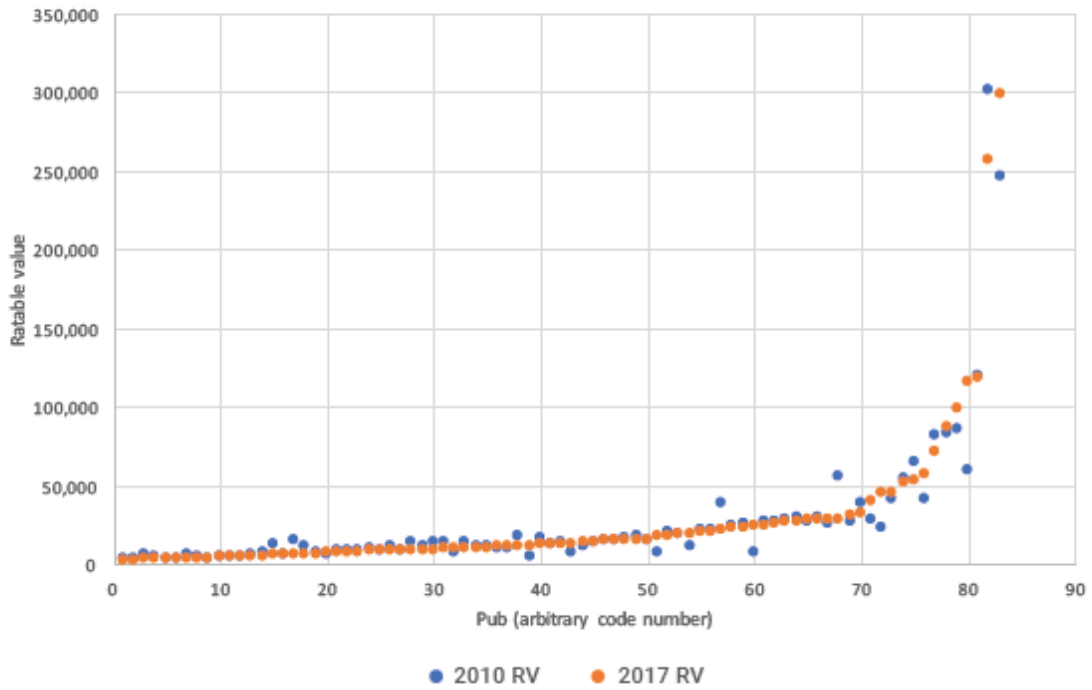
# East Devon



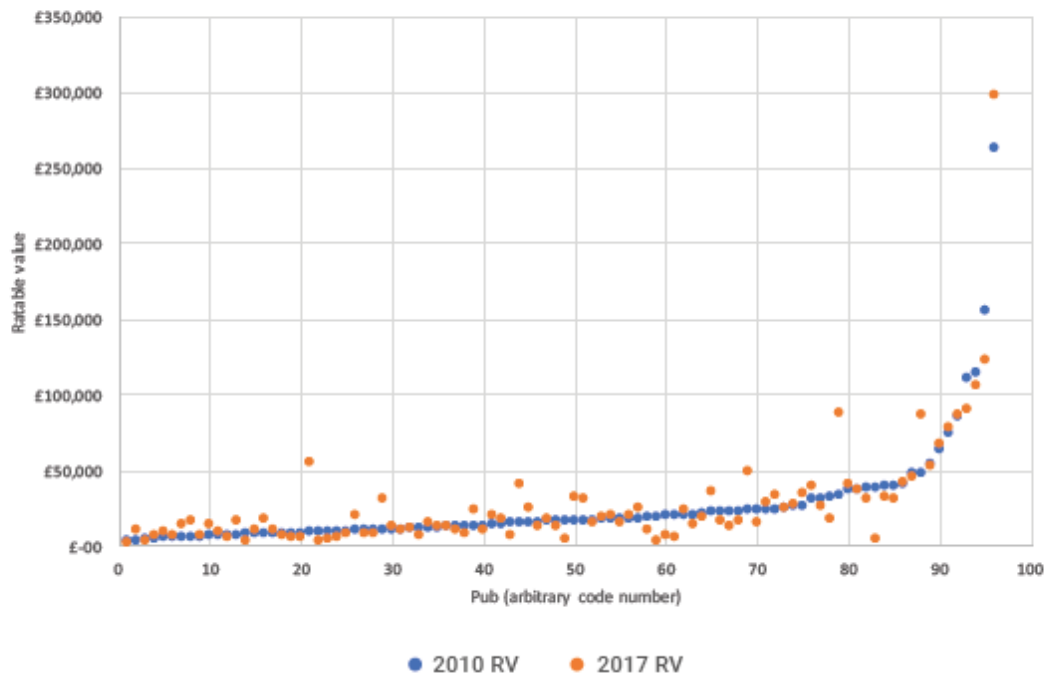
# Tenby, Pembrokeshire

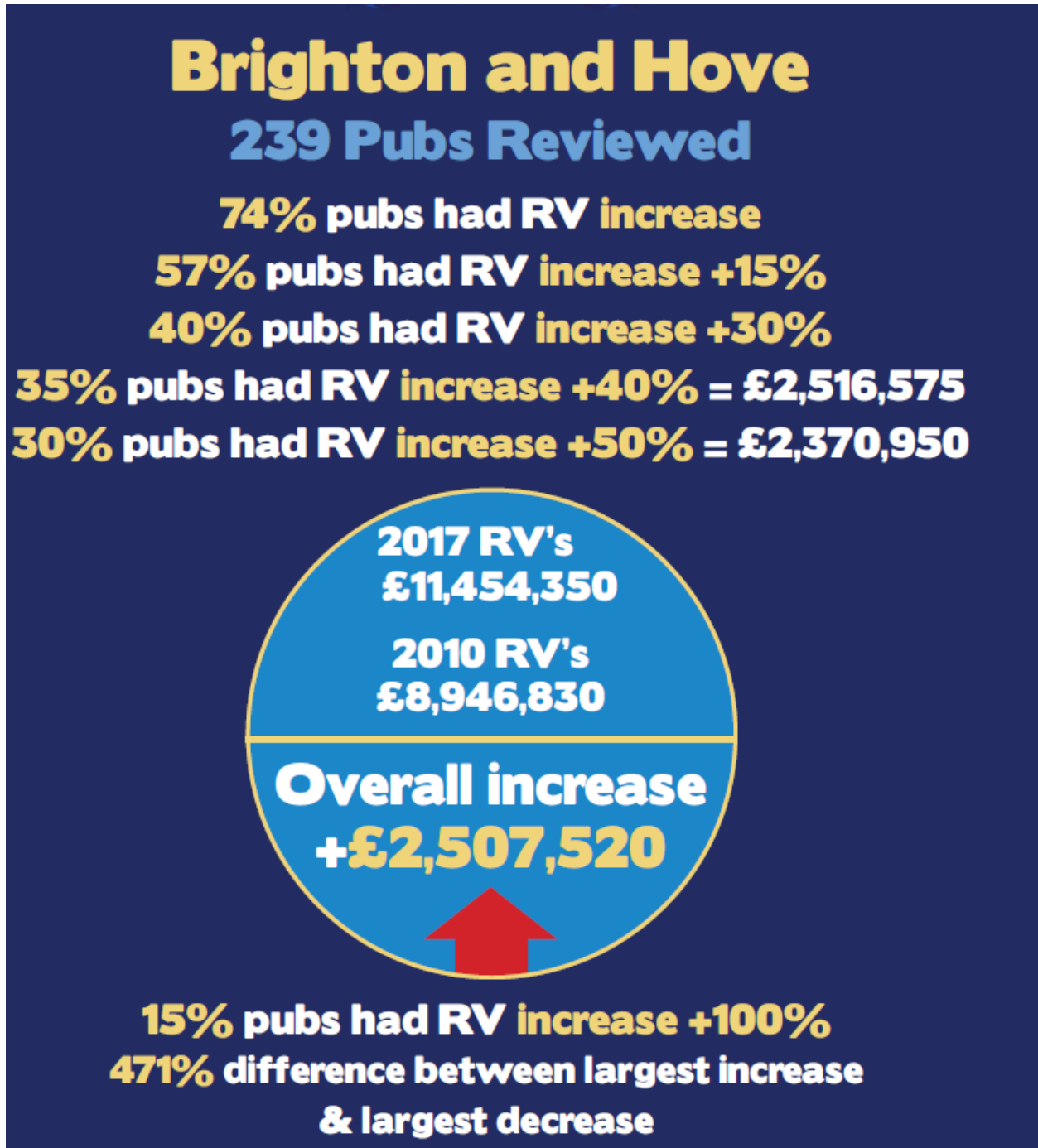


# Burnley



# Newark, Notts





<sup>11</sup> For all data by town/city we reviewed please go to <https://www.saveukpubs.com/case-studies/>