



To the office of

Robert Jenrick MP
Exchequer to the Treasury

4th February, 2019

Dear Minister

Following your kind invitation, Save St Albans Pubs and MP Anne Main, met with you earlier this year. We advised that many of our pubs have seen massive increases in rateable values (“RV”) following the 2017 business rate reform which changed from a footage-based methodology to fair maintainable turnover (“FMT”) to set the RVs for pubs. We voiced our concern that FMT is a subjective methodology in that two qualified people would be likely to find a different RV and that, in any case, the implementation of the new model by the VOA appears to be different from that specified in the guidelines published by the government in 2017. As we are all aware, the FMT methodology, is primarily turnover driven. Turnover should be modified such that pubs which are efficient or out-perform expectations are not penalised and to take account of future trends, neighbourhood clustering, size etc. We noted to you that for St Albans and many towns and cities across the UK, this has not been the case and, a result, those pubs that are out-performing reasonably efficient operator (“ROE”) expectations are seeing significantly higher rates.

You kindly advised us that no one else was voicing concerns to the Treasury about the pub business rate reform and suggested that Save St Albans Pubs should take the campaign nationally and seek the support of larger lobby groups. We have therefore contacted other similar groups and have transformed Save St Albans pubs into Save UK Pubs. We are also pleased to note that we have gained the support of CAMRA and other national groups for our campaign.

You also requested that we collate national data to help support our case. Please find attached a newspaper article on the Scottish government’s decision in October 2018 to cap the business rate increases implemented in 2017/2018 for pubs at 12.5% until 2022 in order to stem pub closures. In addition, we obtained and reviewed data for pub RVs in England and Wales available on the government website.¹

¹ <https://www.tax.service.gov.uk/business-rates-find/search>. We have not yet looked at pubs in Northern Ireland.



The specific areas we have looked at so far are as follows:

- Marlow
- Maidenhead
- Brighton & Hove.
- Lewes.
- Suffolk Coast
- Tenby.
- Newark.
- Burnley.
- Cardiff.
- St Albans District.

Our findings are as follows:

- In each of the areas we looked at, it appears that there has been a major increase in RV, up to 567%. Some of these increases are clearly much higher than the 281% maximum seen in St Albans which we presented to you at our last meeting.
- In some towns/cities, more than 80% of pubs had RV increases and in Marlow, we found no decreases at all.
- In most cities about 30% of pubs had increases greater than 30%.
- The key FMT modifiers do not appear to have been consistently applied.
- We do not believe that this is the outcome Treasury was expecting.
- We have heard from fellow campaigners around the country including Norwich, Swansea and Cheshire, that similar patterns apply. We are in the process of gathering the RV data for these locations as well as analyzing Stoke, Gloucester, York, mid Devon and pubs in London and expect similar findings.
- Save UK Pubs notes the following rough rules of thumb for the industry:
 - The average profit for an out-performing operator in the UK is around 7.5%.
 - Thus, the increase in RV which has occurred for out-performing pubs has had the effect of more than halving the profits of out-performing pubs in the St Albans district and around the country.
 - The average profit for an REO is circa 5%. However, it appears that many ROE pubs have also had significant increases to their RVs such that their profitability has also been halved or worse.



- For pubs operators who have made significant capital investments to improve their premises, their profit margins may be lower than the averages, even if they are a ROE or are out-performing.
- Turnover is an objective, measurable number. However, it can be impacted by extraneous factors such a rise in wholesale beer price which a primarily a tax and pass through to the consumer, but does not change the ROE bottom line or, if anything, might reduce it if the price increases chases away custom.
- For example, between 2010-2017 beer duty rose by 43%. This rise will have distorted the turnover figure for all landlords between the two valuation points and methods.
- Therefore, turnover is not a reliable measure of profitability for pubs.
- There are other factors which also impact profitability including the type of pub model (i.e. tied/free of tie/managed etc.)
- Therefore, the factor being applied to turnover by the VOA to calculate RV should permit a ROE and over-performing pub to make a fair/reasonable salary/profit for their hard work.
- Simply, the move from a transparent and physically measurable basis for setting pub RVs based on market rent has not had the intended effect. This issue appears to have been compounded by the closure around the country of local VOA offices which occurred at the same time as the new RV model was implemented. The VOA backlog for appeals is currently up to 3 years, during which time many of our pubs have closed or will do so in the future.

The government allowed a 5 year transition from the pre 2017 RV to the new RVs. Therefore, the devastating impact on pubs, already at the tipping point, has not yet reached its full extent.

Save UK Pubs asks Treasury to urge the government for:

- An amendment to the budget so that the proposed rate relief for small businesses with RVs of £51,000 or less will apply to all pubs for the first £51,000 in RV whatever their RV.
- 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.
- A review of the business rate tax formula, in consultation with Save UK Pubs and other landlords, including pub companies, nationally in order to develop a transparent, workable business rate formula that does not penalise the 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.

Thank you for urgent attention.



Save UK Pubs