February 2022

HOSPITALITY SECTOR COUNCIL

LOCAL ECONOMIES & COMMUNITIES WORKING GROUP

Business Rates Reform

Recommendations

Business Rates Sub-Group

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Introduction

1. As part of the Hospitality Recovery Strategy set out by BEIS, the Hospitality Sector Council created several working groups to identify those issues and the solutions to them, that hinder the recovery and sustainable growth of the hospitality sector. The Local Economies & Communities working group set up a subgroup specifically tasked with reviewing business rates and making recommendations on how to improve the regime to support the objectives of the Recovery Strategy.

2. Business rates even before Covid had become disproportionately burdensome on hospitality. **Hospitality accounts for 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. Pubs alone are overpaying by £570 million a year. The Unique Business Rates multiplier has increased to a staggering 51.2p today from a more manageable 34.8p in 1990/91. **The Government committed to a review of business rates and published the terms of reference for that review at Spring Budget 2020** in which there featured a whole section entitled 'Supporting retail and the high street' (and again in the final review October 2021). Both business and Government recognise that rates are now business-critical and a rebalance needs to occur if the sector, one which embodies local economies, communities, and the high street, is to return to sustainable growth which, pre-Covid, provided 3.2 million jobs the length and breadth of the country.

3. **The recommendations below fundamentally aim to rebalance rates to fairer levels for hospitality.** While the recommendations pertain to rates, which are disproportionately burdensome to the sector, it is also set within the wider context of overall tax fairness, for which rates is only one part. **Given the importance of rates and the need for swift action, the group focused mainly on suggestions within the existing framework**. While possible to change and improve the framework itself, it does not align with current ambitions of the Government as expressed by the Treasury's fundamental review of business rates reports.

4. The following six suggestions are not exclusive of each other, and the combination of some or all should be considered as the most effective way to rebalance rates. However, given discussions to date, we have noted where one may be more appropriate to consider over another. This is particularly true for more wide-reaching, and thus expensive, recommendations where it was deemed the threshold for evidence to convince Treasury would be incredibly high. Moreover, the recommendations are not listed in order of preference but, where they were deemed to likely be mutually exclusive, we have placed them sequentially for ease of reference.

Recommendations

5. Treasury have already announced their intent to consult on an Online Sales Tax (OST). They have stated their intent to use an OST as a direct offset to costs borne by ratepayers of physical properties, so the additional costs of the following options would merely need to be reflected proportionately in the rates of a new OST.

6. We note that many of the options will prove to be of limited value if property tax relief continues to be subject to Subsidy Control rules. Even after Covid has passed, these caps put significant limitations on large high street businesses and multi-site operators. Under current post-EU Subsidy Control obligations, businesses would only be allowed roughly £100k per year in support (per business rather than site) which would severely limit the reach of support, particularly for those larger businesses who equally need support and provide an anchor to the high street offer. We would ask Government to make the most of the opportunity post EU-Exit to review and exempt property tax reliefs from counting towards these limits.

7. **High Street Relief**. We would ask HMT to consider the creation of a new, permanent relief for hospitality businesses. As mentioned above, we welcomed the extension to the Retail, Hospitality, and Leisure rates relief. Cementing this relief, or at least the Hospitality section of the relief, will support those businesses which invest in the high street and local community. A High Street Relief could be made permanent albeit at lower levels, for which we suspect 20-25% is achievable, if ambitious. This could involve a taper, with rates relief for the High Street transitioning from 50% to, say, 40% of the Rateable Value from April 2023-March 2024, and 30% from April '24-'25, etc. This has the benefit of targeting businesses which contribute to Government's policy aims elsewhere, has fair geographic distribution, uses established mechanisms for ratepayers and Local Councils, and provides a clear roadmap for business and government alike. If taken as suggested above, it would also have the benefit of timelines syncing for the new three-yearly revaluations to provide maximum predictability and stability for users.

   OR

8. **Specific Rates multiplier. As an alternative to the High Streets Relief approach, and particularly if current subsidy control caps remain,** a high streets or hospitality-specific rate multiplier should be considered. Rates multipliers have had the benefit of not being subject to Subsidy Control limitations and so would ensure all business on the high street, or all hospitality businesses, benefitted from a reduced UBR. However, certainly if all high street business were covered, this would make it far less targeted and more costly for Treasury, depending on the level at which it is set. Currently there is no equivalent so this approach would set a precedent and could add complexity.

9. **Online Sales Tax.** As a largely brick-and-mortar based sector on the high street, the Hospitality Sector Council should at least welcome the consultation announced by Treasury and pre-empt it with a recommendation to exclude hospitality. The group discussed the changing landscape of hospitality and understands that more businesses will include a digital service i.e., delivery of food or drink, that may unintentionally be caught by an OST. As the BEIS Business Productivity Review recognised, the adoption of digital tools (including, for example, sales through a website) can not only improve a business' current productivity, but also prepare "a business for the later adoption of more sophisticated digital technologies". High Street businesses like restaurants can lag behind on these issues, and so penalising those who do sell online is likely to have a negative effect. Digital alternatives will become critical for our sector in diversifying their offer in the future (indeed proved a lifeline for many during Covid) so we must avoid disincentivising investment in digital by creating a dual-tax burden for hospitality. An OST must not result in double taxation for the sector.

10. **Time-limited relief for taking on Vacant Property.** We would suggest a time-limited relief for a new tenant taking on a vacant property. Similar to Scotland's Fresh Start Relief programme, it would allow an incoming tenant to receive rates relief if taking on a premises which has stood empty for some time. This would provide a much-welcomed boost to supporting a thriving high street and helping Local Authorities level up their communities. If the tenant relief were discretionary, it could also provide LAs with the incentive to spend allocated money by restoring some of their control to shape the high street which was recently curtailed under changes to Use Class Orders. Of course, this measure would need to be carefully constructed to prevent abuse, but the precedent already exists in Scotland, and we could draft the legislation wording building upon their learned experience.

11. **Covid investment relief.** We ask Treasury to consider this with immediate effect, as valuations for the current 2023 list is already underway, to exempt all Covid-related investments made by hospitality which would negatively impact their rates bills. This measure would likely be a one-off and specifically in recognition of the sector's financial commitment to support Government's Covid policies. It could include costs for improving air circulation, outdoor seating improvements, etc. Such a measure could be appealing in the limited financial exposure for Treasury as it is only likely to last for the duration of the 2023 list. Timing on such a relief would be difficult to turn around fast enough.

12. **Transitional Relief.** Similar to the Online Sales Tax point above, we note that Treasury have already said they would consult on this. As such, we recommend that the Hospitality Sector Council welcome the pending consultation. We would note that any push for removing downward transition relief should come with a willingness to accept less generous caps on upward transition relief.

Conclusion

13. The Business Rates subgroup has identified several ways to support the sector in achieving a structural rebalance towards a fairer tax regime. The Hospitality Sector Council now submits these recommendations for urgent consideration by HM Treasury. We note these could be furthered strengthened by a costings analysis and more detailed argumentation. However, given time sensitivities for some recommendations, we submit these for initial consideration and would welcome further dialogue in relation to the options set out.