

Local Government Finance (Wales) Bill Consultation Response

The Welsh Beer and Pub Association is the voice of brewers and pubs in Wales. Our members, as part of the wider British Beer and Pub Association, brew 90% of the beer produced in Britain and look after 20,000 of our country's much-loved pubs. They range from family brewers and regional pub companies to international breweries and Wales's largest pub estates.

It's a diverse group, but they all have one thing in common; passion for beautifully crafted beer and warm and welcoming pubs.

The BBPA and the WBPA have submitted consultations to the Welsh Government on various issues in the past, including previous reforms to business rates. Our response to this consultation focuses solely on Part 1: Non-domestic rates as the rest of the legislation is outside the remit of the WBPA.

SUMMARY

The proposed reforms to the business rates system in Wales are very welcome as they provide the opportunity and flexibility for the Welsh system to provide more accurate non-domestic ratings bills for businesses and allow the Welsh Government to provide targeted support for industry through sector-specific relief if they so choose.

However, it is important that the Welsh Government consider any additional burden that a more frequent valuation cycle might have on businesses, including those brought about by the duty to notify the VOA of any changes. It is also important that the Welsh Government consider the capacity of the VOA and other officials to accurately administer the changes to the system in a way that does not disadvantage businesses, particularly those in rural communities.

Our response addresses the relevant subcategories of business rates reform in turn.

Background

At present public houses are valued using a specific method not common to other commercial premises, as set out in the VOA's Approved Guide developed in partnership with the industry. The specific methodology used is due to the fact that pubs do not tend to be let on a purely commercial basis, often with more complex, complementary partnerships between landlord and tenant (e.g. supply agreements, support from the landlord and other arrangements) and factors such as geographical location and type of operation are taken into account. The current system is based on an outlet's 'Fair Maintainable Turnover' (FMT), the level of revenue that a reasonably efficient operator would be able to generate in the premises. .

Because of this unique valuation method, it is important to consider how changes to the business rates system which may seem positive or not disruptive could have unintended impacts on businesses valued this way, particularly the duty to notify. Given the recently announced measures in the Welsh budget, pubs in Wales contribute £35.4m in business rates. The average pub in Wales is £6,000 worse off than their English counterpart due to lower relief and lack of a small business multiplier.

More frequent revaluations

The WBPA is glad to see the Welsh Government pursuing a move to more frequent valuations in line with the changes already agreed in England. We believe a move to three-yearly revaluations will yield more accurate rates, reduce dramatic changes from one revaluation period to the next, and improve transparency on how rates are established. However, we believe the trade-offs identified by the Government in moving to a more frequent system must be more carefully examined. Current obligations proposed under new Duty to Notify provisions place disproportionate burden on ratepayers and are not balanced.

In addition, it is important that the Antecedent Valuation Date (AVD) and Date of Compilation is as close to each other as possible, thus reflecting the property market and rental values more closely. The current period leaves a two-year window which allows either a movement in property values which are not reflected or external event that complicates the establishment of the rental value of a property at the Date of Compilation adopting the rental values some two years previously.

It is encouraging to see that the Welsh Government prefers changes which would bring the Welsh valuation cycle in line with England. This is preferable for many reasons, not least the impact on the VOA, but also for pub estates which have properties across borders. Should this legislation proceed and the power to amend valuation cycles be devolved to the Senedd, it is important that this consideration continues as both Wales and England may continue to seek shorter valuation cycles;

many businesses would have concerns should the valuation cycles fall out of synch, causing a burden on the VOA and confusion amongst businesses. In either case, the WBPA strongly urges a thorough review of the costs and benefits relating to a three-year cycle –once implemented –and an impact assessment of any move to shorter cycles.

Reliefs

The Retail, Hospitality and Leisure relief has been instrumental in ensuring that pubs across Wales can continue to weather the challenges in the market, including record high energy costs, food and drink price inflation, and labour shortages. It was worth £7.1m to the sector in Wales, and without this crucial relief, it is certain that many more pubs would have had to close their doors.

Should the legislation provide that Welsh Ministers can award, vary or withdraw relief, it is important to recognise the incredibly valuable nature of reliefs for pubs. Failing longer-term adjustments to business rates, reliefs work to rebalance the business rates burden, allowing pubs to thrive.

Devolution with regards to Welsh Business Rates relief would also allow Wales to correct some of the recent oversights with the Non-Domestic Ratings Act (2023) in England, particularly regarding improvement relief where Wales should resist implementing the same occupation condition for the relief. This is because the English legislation contains a blind spot regarding the unique partnership model that applies to pubs up and down the country, requiring pubs to be occupied by the same ratepayer for the entire period of the improvement and the relief window. Without reflecting the close partnership between pub companies and ratepaying publicans, investment in partnership pubs may become a less desirable venture, crippling pubs when they need to improve, adapt, and modify their businesses to survive.

Non-domestic rating multipliers

The ability for Welsh Ministers to set differential multipliers for various businesses would be a great reflection and response to a number of the issues with business rates –including their current inflexibility and outdated approach to valuing businesses in a digital age. The WBPA has long been in favour of a digital sales tax to rebalance the burden placed on brick-and-mortar venues which cannot move online, like hospitality. While we recognise that this legislation would merely allow for these changes, not guarantee them, we think it a valuable move forward.

Being able to allocate multipliers based on the description of a venue, i.e. if they fall in the public houses category, would enable the Welsh Government to more accurately target business rates support and relief.

Even before the deleterious impact of the Covid pandemic on venues like pubs, it had already become widely recognised that hospitality was being disproportionately impacted by business rates and that reform was urgently needed. For example, across the UK, hospitality contributed over 11% of all business rates payments despite contributing only 3% of eligible income. By this measure, and even after the recent revaluation, pubs will be overpaying by over £400 million. In order to create lasting reform and sustained growth with a limited investment, the Welsh Government should implement a permanent pub (or hospitality) specific multiplier at a significantly lower rate. Such a measure would recognise and address, at least in part, the disproportionate rates burden pubs face under the current system. This would end the sticking plaster policies that only provide temporary relief for the businesses that bring life to our communities.

At the same time, given Wales only currently has one standard multiplier, it is important that this measure is limited to the ability to downrate the standard multiplier to avoid punitive measures or uncertainty for businesses. The measure this legislation is seeking should be used as a positive measure to support sectors where needed, not to squeeze more out of sectors as and when.

Provision of information

While we recognise the intention to align with the new Duty to Notify in England, the WBPA would reiterate the concerns shared during the consultation process in England.

The Duty to Notify provision explicitly requires businesses to notify the VOA and/or Billing Authorities through the use of an, as yet designed and tested, online portal and requires an annual confirmation returns through this same portal. This presumes both access to and familiarity with the internet that not all publicans may have. Viewed through the lens of the highest taxed sector per pound turnover, this adds insult to injury – a physical property must file using a digital platform while the digital economy has no tax equivalent, much less the burden of filing changes and annual confirmations.

While the move to more frequent valuations is welcome, the information required under the new Duty to Notify goes above and beyond what is required to make more frequent valuations possible. The administrative burden of such changes is an unrealistic prospect for many pubs. There remains more work to be done with the government and the VOA to ensure simple, accurate, and timely valuation of pubs.

When considering the implementation of a Duty to Notify, it is important to consider the proportionality of the information requested and its impact on revaluation. This is especially necessary when expecting publicans to update their records within 60 days as the Duty to Notify would disproportionately impact pubs, due to the frequency and volume of potential changes and the unique approach of Fair Maintainable Trade as a valuation tool. In addition, information provided within a 60-day period could ultimately be out of date and irrelevant by the time a valuation comes around, especially when considering the annual confirmation also proposed.

We would ask that the Welsh government consider the following:

1. Businesses which currently do not participate in the rate system through exemptions under Small Business Rates Relief, for example, are exempt from Duty to Notify and its financial penalties.
2. Pubs should be given a minimum quarterly period for Duty to Notify, and the specific reasons which trigger the obligation for Duty to Notify be much more specific and limited.
3. In line with the limitations for triggering Duty to Notify, reword duties such that it is not any change to a hereditament, but specifically changes related to the non-domestic element of the hereditament. For example, residential components of pubs should not bear Duty to Notify as it is a Council Tax component and not within scope of Non-Domestic Rates.
4. Digital platforms should seek to create interoperability between VOA and Billing Authorities to create a single form on a single site.

Conclusion

As this legislation mainly focuses on providing the Welsh Government increased legislative autonomy, it is important to acknowledge the potential for creating a more competitive, fairer and sustainable business rates environment in Wales, while ensuring that any increased divergence between Wales and the rest of the UK does not disadvantage Welsh businesses or consumers in the process.

Should these provisions move forward, the Senedd has a great opportunity to be a leader within the UK on business rates reform through ensuring a sustainable balance between brick-and-mortar venues and online shops, encouraging investment and growth, and enabling pubs across Wales to thrive in challenging times.