Europe Economics

Economic Impact of Business Rates Relief on the Pub Sector

Europe Economics

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Executive Summary

Introduction

This study fulfils a request from the British Beer and Pub Association (BBPA) to commission an impact assessment of changes in business rates in the UK pub sector. In particular, the focus of the study is on understanding the impact of extending the pub-specific rate relief, as well as a qualitative consideration of the impacts of allowing delays in business rate uplifts following investment and providing relief to recognise the wider community services that many pubs offer.

Business rates are taxes on the occupation of non-domestic property. They are charged on most non-domestic properties based on the rateable value of each property.

In 2017 there was a revaluation of rateable values. This resulted in an increase in the average rateable value of pubs of 14.6 per cent: from £33,952 to £38,893. As well as the updated estimates of rateable value, the 2017 revaluation was also accompanied by other changes, including the pub sector-specific relief of £1,000 for each pub with a rateable of less than £100,000 (for 2017/18 and 2018/19 only).

The BBPA are in support of a wholesale review of business rates in light of the changing business landscape. In the more immediate term, however, it has identified four policy proposals that should help to correct for the disproportionate business rates burden which pubs are subject to and thus help to sustain the industry in the current difficult economic climate. These are: (A) extend pub sector-specific relief of £1,000 per year (and eventually make this permanent); (B) provide investment relief (in the form of a revaluation delay following investment); (C) relief to recognise community service offerings; and (D) refine the methodology for calculating pubs rateable value.

This study investigates the impact of proposals A, B and C.

Data

Our study uses data collected annually by the BBPA to inform its “Running a pub” guide. This includes data on sales revenue and the different cost items that contribute to the overall costs of running a pub. The data are provided by 10 major pub companies that submitted revenue-cost data for different “typical” pubs grouped into several representative categories (or “typologies”). The approximate number of pubs in each typology is also provided by each respondent, giving a total sample of 3,385 pubs across all respondents.

Methodology

The assessment of impact is based on the analysis of the net income. This is defined as the difference between total sales and total cost. We understand that these estimates are approximations and are based on data supplied by BBPA members, so our analysis acknowledges such limitations and explain carefully situations with data uncertainties.

We also found that data did not contain estimates on rent and taxes so we have assumed rent to be 50 per cent of the divisible balance. For taxes we excluded VAT and have taken national insurance contributions as part of wages and salaries. We also assumed that the business rate bills quoted by pub companies submitting responses already include the £1,000 pub sector business rate relief (for pubs with a rateable value greater than £12,000 and less than £100,000) and other business rate reliefs to which some pubs may be entitled to.

In order to understand the impacts at the regional level we used the BBPA database of pubs for England, Scotland and Wales. Every pub in the database was then allocated to one of the different identified typologies using the postcode and the reported business rate bill.

Impact of Proposal A (£1,000 pub sector relief)

The impact of Proposal A is calculated by comparing pubs' profitability in the status quo (i.e. with the relief in place) and a situation where the relief is removed (and hence business rates increasing by £1,000). We have found the following:

- **The impact of the relief varies across the different pub typologies:** pubs who see the largest percentage point reduction in their net income are those with lower weekly turnovers, specifically small rural and community pubs with weekly turnover of £4,000-5,000.
- **The impact of the relief is disproportionally affecting pubs with lower revenues:** although an increase in business rates of £1,000 does seem a small amount in absolute terms (less than £20 per week), the impacts are very different depending on the pub's size. For pubs with revenues at the lower end of the industry spectrum the impact is a lot larger. In contrast, for pubs with weekly revenues greater than £10,000 the impact is small, while for pubs with revenues greater than £14,000 it is hardly noticeable.
- **Some pubs could see increased business rates shave 5-10% off their current net income:** we have considered how much the additional business rates would represent as a share of each pub's net income. We find that the impacts are most significant on pubs with lower revenues. A steeper increase in the burden can be observed as we move towards pubs with lower revenues, reaching a burden equivalent to 5-10% of net income for pubs with revenues below £5,000 per week.
- **As many as 19% of pubs face a HIGH or VERY HIGH burden if the relief were removed:** we find that 5% of our sample would face a VERY HIGH burden (which we define as an impact of more than 10% on their net income), and an additional 14% of our sample would face a HIGH burden (defined as an impact of between 5% and 10% on their net income). These are the pubs we consider to be most at risk of closing as a result of the removal of the business rates relief.
- **The share of affected pubs is higher for small community and rural pubs:** we investigated the share of pubs facing HIGH or VERY HIGH burdens in each typology, finding that: almost three quarters of community pubs with revenues around £4,000 would face a HIGH or VERY HIGH burden; and just under one third of rural pubs with revenues around £5,000. The remaining typologies are less significantly impacted, with no impact expected on three typologies of pub.
- **Almost 3,800 pubs could be potentially at risk of closure:** we extrapolated the shares of pubs at risk in each typology in our sample to the full population of pubs in England, by mapping each pub in the BBPA's pub database to a specific typology. Using this methodology, we estimated the number of pubs affected by a VERY HIGH or HIGH burden at 3,788. In reality, not all of the pubs we have identified as potentially at risk would close in the short run, but even if say one fifth of these were to close that would still equate to an additional 750 pubs closing (on top of the current trend of 1,000 closures per year).
- **The impacts would be felt more in particular regions of the country:** The analysis finds the most affected region to be the South East, with 11% of pubs at risk. The least affected regions would be the North East and North West, with 8% of pubs potentially at risk. In terms of the total number of pubs, we find that the South East could be the most affected, with almost 700 pubs at risk.
- **Over 20,000 full time jobs, and almost 30,000 part time jobs, could be at risk:** we have analysed the impact on full time and part time jobs and have found that the 3,788 pubs potentially at risk corresponds to around 20,900 full time jobs, and a further 29,200 part time jobs. Again, even assuming that one fifth of these pubs were to actually close it would imply significant employment losses: in the order of 4,000 full time and 6,000 part time jobs. By region, the South East could expect to be worst hit, where pubs potentially at risk currently support 4,700 full time and 5,700 part time jobs. London and the North East would be the least affected.

- **For some pubs, an extension of the relief (up to £2,000) could be critical to survival:** we already know that current trends are seeing 1,000 pubs close per year on average. We have also estimated that around 1,800 pubs are currently operating with a net income of 2.5% or less, and could therefore be expected to be the next to close if current industry trends continue. For those pubs, a relief of £2,000 (an additional £1,000 rate relief per year) could be critical to remaining commercially viable (despite only equating to approximately £20 additional income per week this can have a significant impact on the viability of those with low incomes).

Impact of Proposal B (investment relief)

Proposal B is to introduce an investment relief, in the manner of a delay to the revaluation of a pub premise following investment for either two years or until the next revaluation period, whichever is longer. We have assessed the potential impact of this proposal on pub sector investment.

We have found the following:

- **Delaying the revaluation could stimulate significant investment in the pub sector:** we have considered the impact on the incentive to invest by evaluating the internal rate of return (IRR) of a given investment opportunity with and without the delay to revaluation in place. We find that with no revaluation at all, a £30,000 investment generating one-for-one turnover and net additional income of 18% per year would generate an IRR of 12.4% evaluated over ten years. With immediate revaluation, the IRR drops to 7.5%, thus weakening the incentive to invest and decreasing investment across the sector as a whole. A delay in revaluation can help to increase the IRR: to 8.9% if a two-year delay were introduced, and to 9.5% with a three-year delay. By raising the IRR in this way, this could stimulate materially more investment in the pub sector.

Impact of Proposal C (relief for community service)

Proposal C would introduce a relief to recognise pubs with community service offerings. Pubs, and especially community pubs, often play a key role in communities providing the premise for various initiatives and many services free of charge. Indeed, many pubs are already listed as Assets of Community Value. We have identified that:

- **Community pubs are more at risk financially:** it is the community and rural pubs which typically have lower net incomes and are therefore more at risk financially. Our analysis also shows that the share of "Community" and "Rural" pubs is likely to be small in comparison to the total pub population, constituting around 30% of all pubs in England (roughly 15% in each category).
- **Community pubs are about bringing people together and provide community cohesion:** losing a community or rural pub will not only produce a loss for the consumer of beer but will also affect those members of the community that attend pubs in search of company or community cohesion. Some of these benefits go beyond support to local suppliers, by helping bring communities together through leisure events: from the weekly quiz night to summer concerts in the pub's backyard.

Consideration of additional relief, or adjustments, to business rates for qualifying pubs could be a way to recognise the services these pubs provide freely to local communities. It will also be a way to improve the existing financial difficulties of community and rural pubs. The costs of helping such pubs is expected to be manageable, as these represent only 30% of total pubs.

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1 Introduction

This study fulfils a request from the British Beer and Pub Association (BBPA) to commission an impact assessment of changes in business rates in the UK pub sector. In particular, the focus of the study is on understanding the impact of extending the pub-specific rate relief, as well as a qualitative consideration of the impacts of allowing delays in business rate uplifts following investment and providing relief to recognise the wider community services that many pubs offer.

1.1 The UK pub sector

According to recent BBPA figures, the brewing and pub sector is a major contributor to the UK economy, with just over 48,000 pubs (80 per cent of them SMEs) adding £23 billion to national gross value added and sustaining 900,000 jobs. However, the number of pubs in the UK is in long-term decline, a trend that has accelerated in recent decades (with 60,800 pubs active in 2000, but only 48,350 in 2017).

The BBPA recognises that pubs are facing increasing pressures on a number of different fronts: increasing competition in the sector; a sharp rise in regulatory costs; and a disproportionate tax burden. The business rates bill incurred by pubs is an example of this disproportionate tax burden, with pubs contributing 2.8 per cent of total business rate revenues despite accounting only for 0.5 per cent of all ratepayers' turnover.

1.2 Business rates

Business rates are taxes on the occupation of non-domestic property. They are charged on most non-domestic properties based on the rateable value of each property. Business rates are calculated as the product of two components: the property's rateable value and a standard or small business multiplier.

- The rateable value is a rent the property could have been let for on a certain date (and it is estimated by the Valuation Office Agency, VOA). For pubs, the estimation is based on an assessment of 'fair maintainable trade'.[1]
- Two multipliers are used: the standard multiplier is used for businesses with a rateable value of £51,000 or more; and the small business multiplier is for businesses with a rateable value less than £51,000. The table of multipliers for the most recent three tax years is shown below.

Table 1.1: Business rates multipliers (in relation to rateable values)

Year	Standard (>£51,000)	Small business (<£51,000)
2018 to 2019	49.3p	48.0p
2017 to 2018	47.9p	46.6p
2016 to 2017	49.7p	48.4p

Source: gov.uk

[1] The 'fair maintainable trade' is a term meant to capture the annual trading receipts that a pub can be expected to achieve. For its estimation, the VOA collects evidence on rents, trading receipts and trading patterns. The data is used along with information on the type of premise, area, services offered and rents paid by similar pubs, to set the level of fair maintainable trade. Rateable values are updated periodically (usually every five years) in what is known as 'revaluation'.

1.3 Impact of the 2017 revaluation

In 2017 there was a revaluation of rateable values. This resulted in an increase in the average rateable value of pubs of 14.6 per cent: from £33,952 to £38,893. The impact in the sector has been exacerbated by a reduction in the number of pubs with a rateable value below £51,000; which in fact means a larger proportion of pubs using the standard multiplier. The BBPA has estimated the increase in rateable value to be more significant in London, the South East and the South West.

As well as the updated estimates of rateable value, the 2017 revaluation was also accompanied by four other key changes – the first two applying across all sectors, and the latter two specific to the pub sector:

1. Small Businesses Rate Relief applying to all businesses: 100 per cent business rate relief for properties with a rateable value of £12,000 or less (previously £6,000 or less), with tapered relief extended up to £15,000 (previously £12,000).
2. Transitional relief is an adjustment of a firm's business rates bill if their rates would have gone up or down by more than a certain threshold amount after revaluation, so as to ensure a smoother transition to the new business rate levels.
3. Pub sector-specific relief of £1,000 for each pub with a rateable of less than £100,000 (2017/18 and 2018/19 only)
4. Bill cap of £50/month (£600/year) for pubs previously exempt from business rates (2017/18 only).

The revaluation resulted in a business rates bill on average 6.4 per cent higher for pubs, equating to an additional expenditure of £1,042 per pub. While there has been a reduction in the bill paid by smaller pubs (with a rateable value of £15,000 or less) due to the Small Businesses Rate Relief, the bill paid by the largest pubs (with a rateable value exceeding £100,000) has increased by £14,088 on average.

Transitional and other reliefs are benefiting pubs in the short term, resulting in an average reduction in the bill of £646 in 2017/18 (rather than an average increase of £1,042 in absence of the reliefs). However, the situation for pubs will gradually worsen in subsequent years as the effect of the relief fades, with the average pub seeing their business rates bill increase by around £2,600 by 2021/22.

Table 1.2: Impact of 2017 revaluation on the pub sector (2017/18)

Rateable value ranges	% change in the number of pubs	Average change in business rates per pub (with additional reliefs, 2017/18)	Average change in business rates per pub (without additional reliefs, 2017/18)
Sub £12k	-2.6%	-£2,897	-£2,897
£12-15k	-8.6%	-£4,052	-£3,109
£15-51k	-5.4%	-£1,240	£450
£51-100k	7.5%	£116	£4,512
£100k+	42.6%	£10,434	£14,088
All		**-£646**	**£1,042**

Source: BBPA calculations. NB. Figures are relative to 2016/17 base year.

1.4 BBPA proposals for business rates reform

The BBPA are in support of a wholesale review of business rates in light of the changing business landscape. However, in the more immediate term, they have identified four policy proposals that should help to correct for the disproportionate tax levels to which pubs are subjected and thus sustain the industry in the current difficult economic situation. The four proposals are:

A. Extend pub sector-specific relief of £1,000 per year (and eventually make permanent).
B. Investment relief (revaluation delay following investment).
C. Community service offerings relief.
D. Reform of methodology for pubs rateable value.

Proposal A would further extend the £1,000 pub specific relief with a view to eventually making it a permanent relief. Such relief should represent a significant lifeline for the industry especially in light of the 2017 revaluation and help less profitable community pubs to stay in business.

Proposal B is to introduce an investment relief, in the manner of a delay to the revaluation of a pub premise following investment for either two years or until the next revaluation period, whichever is longer. This measure, already recommended in the Barclay Review and implemented by the Scottish Government, would constitute an important incentive to invest, possibly managing to revert the sector decline.

Proposal C would introduce a relief to recognise pubs with community service offerings. Pubs, and especially community pubs, often play a key role in communities providing the premise for various initiatives and many services free, with many pubs already listed as Assets of Community Value. Reliefs or adjustments to business rates should be granted to qualifying pubs, as recognition of the services they provide freely to local communities.

Proposal D is a reform in the way in which the rateable value of pubs is evaluated, including improved pub-specific valuation expertise. Currently, the standard practice is to use the latest annual turnover figures as the principal measure to assess “Fair Maintainable Trade”, but this can generate a perverse valuation mechanism that penalises success.

This study investigates the impact of proposals A, B and C.

1.5 Structure of the report

The remainder of the report is simply structured in two parts:

- Section 2 sets out the data and methodology used in this study.
- Section 3 presents our analysis and key findings.

2 Data and methodology

In this section we set out the data and methodology used in the study, specifically:

- Data on revenue-cost data by pub typology.
- Data limitations and necessary assumptions.
- Method for assigning individual pubs to pub typologies.
- Regional data.

2.1 Revenue-cost data by pub typology

Our analysis study uses revenue-cost data collected annually by the BBPA ("Running a pub" guide). Data contains sales revenues and other major cost items, as shown in Table 2.1.

Table 2.1: Revenue and cost items (BBPA "Running a pub" guide)

Category	Revenue-cost item
Sales	Drinks Sales Food Sales Other Sales Gaming machine income
Cost of goods sold	Cost of drinks Cost of food Cost of other
Operating Costs	Wages & Salaries Rates Utilities Repairs & Renewals Insurance Marketing/Promotion/Telephone Consumables Waste Disposal/Cleaning/Hygiene Professional fees Bank charges Equipment Hire etc. Interest on capital Pay TV (Sky, BT Sport etc.) Live Music Other Costs

Source: BBPA.

The data are provided by 10 major pub companies that submitted revenue-cost data for different "typical" pubs grouped into several representative categories (or "typologies"). The approximate number of pubs in each typology is also provided by respondent, giving a total sample of 3,385 pubs across all respondents.

The BBPA differentiate between nine typologies of pub. These are formed by categorising pubs along three key dimensions: location (community, rural or town); approximate proportion of wet and dry revenues (for example 90:10 or 50:50); and approximate weekly revenue (for example, £4,000, £8,000 or £15,000 per week).

In this study we refer to each of the pub responses as a "pub-type". We represent each typology with a suitable abbreviation, as shown in Table 2.2. Hence, for example, for typology COMMUNITY_4K we have ten "pub-types" (one for each respondent) and these are representative of different models for running a pub. As aforementioned, respondents have also provided a figure for the approximate number of pubs each "pub-type" represents.

Table 2.2: Definitions and abbreviations used

Abbreviation	Definition in BBPA "Running a pub" guide
COMMUNITY_4K	Community Wet Led (100% Wet) (£4,000/week).
COMMUNITY_5K	Community Wet Led (90:10 wet/dry) (£5,000/week).
COMMUNITY_8K	Community Wet Led (90:10 wet/dry) (£8,000/week).
COMMUNITY_15K	Community Wet Led (90:10 wet/dry) (£15,000/week).
RURAL_5K	Rural Character (50:50) (£5,000/week).
RURAL_8K	Rural Character (50:50) (£8,000/week).
CENTRE_10K	Town Centre Pub/Bar (£10,000/week).
TOWN_10K	Town Country Food Led Pub (£10,000/week).
TOWN_15K	Town Country Food Led Pub (£15,000/week).

Source: BBPA typologies, Europe Economics abbreviations.

2.2 Data limitations and necessary assumptions

We understand that the data provided are approximations and are based on information supplied by BBPA members. Where necessary, our analysis acknowledges the limitations of these data and explains carefully situations with data uncertainties.

Data in the "Running a pub" guide did not contain estimates on rent and taxes so the following assumptions have been made:

- **Rent**: this is assumed to be 50 per cent of the divisible balance (where divisible balance is defined as [Total Sales excluding revenues from gaming machines] less [Total Cost]). The assumption is based on estimates from the BBPA which suggests that the rent is payed as a percentage of the divisible balance and that applied percentages typically range from 45 to 65 per cent.[2]
- **Taxes**: VAT is excluded from the analysis as this is paid directly by the consumer. National insurance contributions are assumed part of wages and salaries, while duty rates are assumed part of cost of goods sold (specifically cost of drinks).

Given the data are for 2017, we have assumed that the business rate bills quoted by pub companies already include the £1,000 pub sector business rate relief (for pubs with a rateable value under £100,000) and other business rate reliefs to which some pubs may be entitled to.

From discussions with the BBPA, we are also aware that wages for management-related activities are not captured in the data. Indeed, it is our understanding that the figures in the BBPA's "Running a pub" guide do not include any work undertaken by the licensee themselves, which for tax reasons licensees may account for in different ways. We therefore interpret that the reward to the pub owner is not included in the cost data and instead comes from the net income.

The assessment of impacts is based on the analysis of changes in pubs' net incomes, where net income is defined as:

Net income = [Total Sales] – [Total Cost]

[2] A floor of £100 per week has been imposed to the minimum rent level, in order to avoid estimation of zero or negative weekly rent for pubs with low divisible balances.

Where, [Total Sales] includes revenue from drinks, food, other and gaming machines; and [Total Cost] includes the cost of goods sold (drinks and food), as well as operating costs (wages, utilities, etc.).

2.3 Method for assigning individual pubs to pub typologies

In order to understand the impacts at the regional level, we used the BBPA database of pubs in England. Every pub in that database was allocated to one of the nine pub typologies.

Pubs were allocated into typologies in the following way:

- Firstly, the postcode stem for each pub (taken from the BBPA database of English pubs) was identified as either "Rural", "Community" or "Urban" by using the ONS database on urban/rural classification by postcode.
- Secondly, each pub's reported business rate bill (again taken from the BBPA database of English pubs) was compared with the weighted average business rate bill for each pub typology, in order to assign the pub to the typology reporting the closest business rate bill.[3]

Importantly, the second stage is subsequent to the first stage. This means that once a pub is classified as say "Rural" in the first stage, its business rate bill is then only compared to the weighted average business rate bill of RURAL_5K and RURAL_8K in the second stage and then assigned to the typology with the closest business rate bill. Similarly, if a pub is first classified as "Urban", its business rate is then matched with the closest business rate bill out of CENTRE_10K, TOWN_10K and TOWN_15K.

2.4 Regional data

To analyse the regional impacts of changes in business rates we also used data from the "The Local Impact of the UK Beer and Pub Sector",[4] which contains estimates of the number of full time and part time jobs and total wage bill, both at the aggregate and regional level.

We have used these data to estimate the impact on jobs in the pub sector at a regional level as a result of changes in business rate relief (a key assumption underlying this approach being that pubs in the same region pay the same average salary, irrespective of the typology of the pub).

[3] The database contains address and postcode and an estimation of business rate bills paid by pubs, which were used to link the two sources of data. The database also contains details on: Indication of local authority, parliamentary constituency and region in which the pub is located; Rateable value of the premises, before and after the 2017 revaluation; Transitional rate relief; Small business rate relief (with different thresholds dependent on the nation in which the pub is located); The appropriate multiplier (regular or for small businesses) used to calculate the final bill; Other applicable reliefs.

[4] For the published report, see: Oxford Economics (2016), "The Local Impact of the UK Beer and Pub Sector".

3 Analysis of impacts

In this section we first present the impacts of Proposal A (a £1,000 pub sector specific relief), by quantitatively modeling the impact on pub's profitability. The final subsections discuss the impacts of Proposal B (investment relief) and Proposal C (community services offerings) in qualitative terms.

3.1 Impact of Proposal A (a £1,000 pub sector relief)

The impact of Proposal A is calculated by comparing pubs' profitability under two scenarios:

- Under the status quo with the business rate relief (which we denote as *T = 0*).
- Assuming the relief is removed and hence an increase in business rates of £1,000 (*T = 1*).

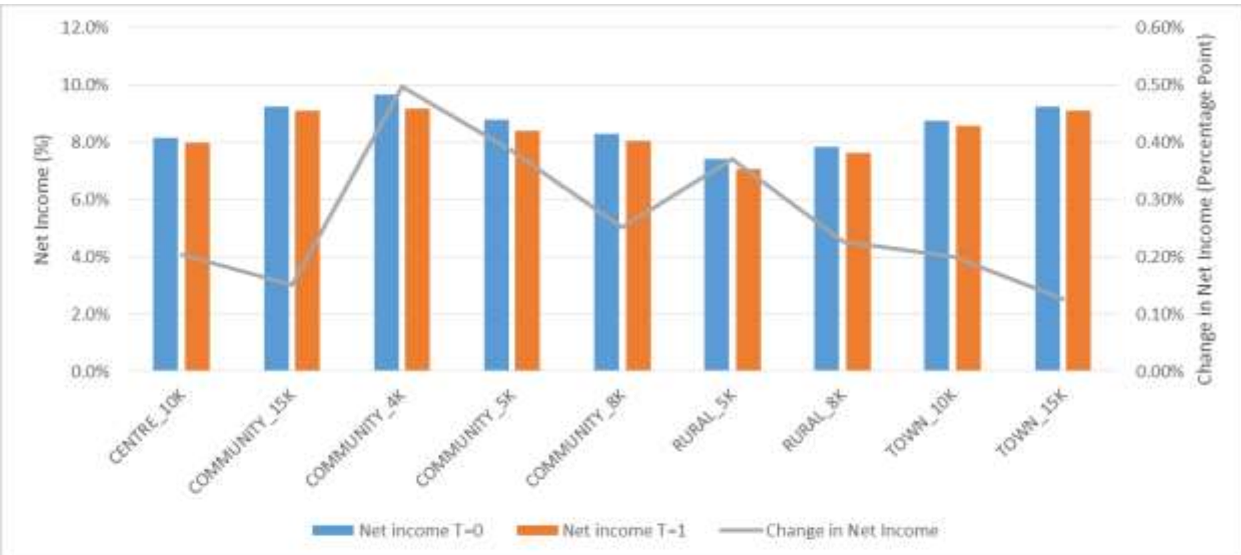
The difference between (*T = 1*) and (*T = 0*) is used to assess the impact of Proposal A. Our findings show the following.

The impact of the relief varies across different pub typologies

We have estimated a weighted average net income for each pub typology. For a given typology, the weighted average takes the net income reported in the ten pub-type submissions for that typology and weights the figures by the approximate number of pubs in that typology for each pub-type (see Chapter 2 for definitions of "pub-types" and "typologies").

Figure 3.1 below shows the results of this analysis, presenting the net income under the status quo (*T = 0*), and once the business rates relief has been removed (*T = 1*). We also plot the percentage point change in net income on the secondary axis. It can be seen that those pub typologies which see the largest percentage point reduction in their net income are those with lower weekly turnovers, specifically RURAL_5K, COMMUNITY_5K and COMMUNITY_4K. For these typologies, the weighted average reduction in net income is in excess of 0.35 percentage points (and 0.50 percentage points in the case of COMMUNITY_4K, which is the most affected typology).

Figure 3.1: Net income with relief (*T = 0*) and without (*T = 1*), and change in net income



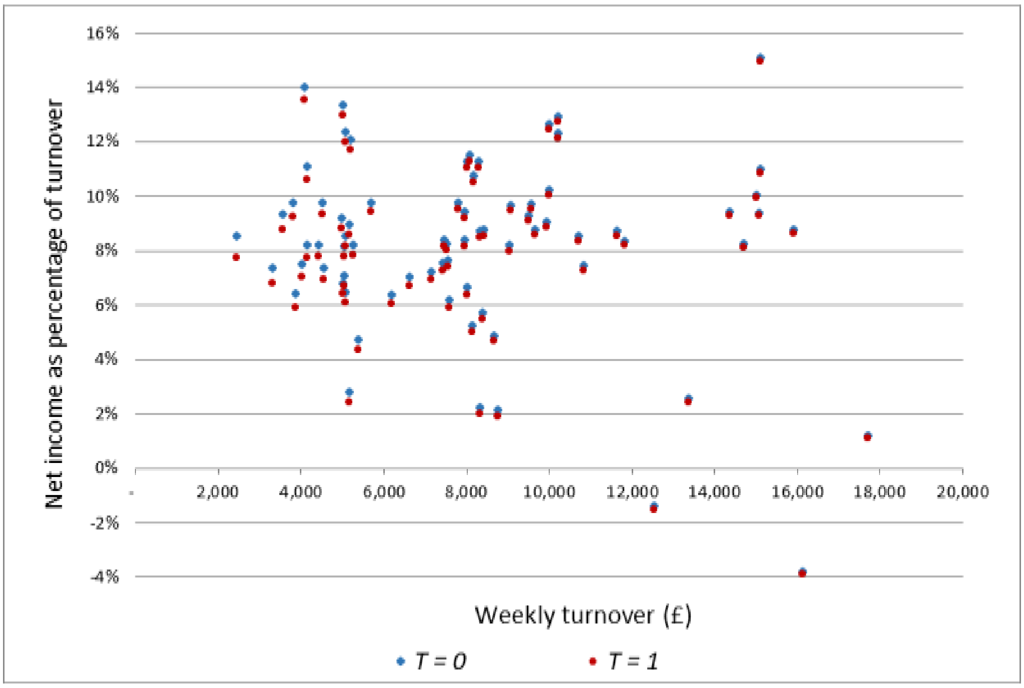
Source: BBPA data; Europe Economics analysis.

The impact of the relief is disproportionally affecting pubs with lower revenues

This section of our analysis makes use of individual pub-type submissions across each pub typology, rather than taking a weighted average for each typology. This allows us to explore the extent of variation within each typology, in terms of the impact of removing the relief on pub profitability.

The results show an unsurprising drop in pubs' profitability as a result of withdrawing the relief. More interestingly, it can be seen that the impact varies for different size pubs. Although an increase in business rates of £1,000 does not seem a small amount in absolute terms (less than £20 per week), the materiality of this is very different depending on the pub's size. For pubs with revenues at the lower end of the industry spectrum, the impact is a lot greater than for higher turnover pubs. Looking at Figure 3.2, for pubs with weekly revenues greater than £10,000 the impact is small, for pubs with revenues greater than £14,000 it is hardly noticeable.

Figure 3.2: Impact in profitability (% of turnover): with relief (*T = 0*) and without (*T = 1*)



Source: BBPA data; Europe Economics analysis.

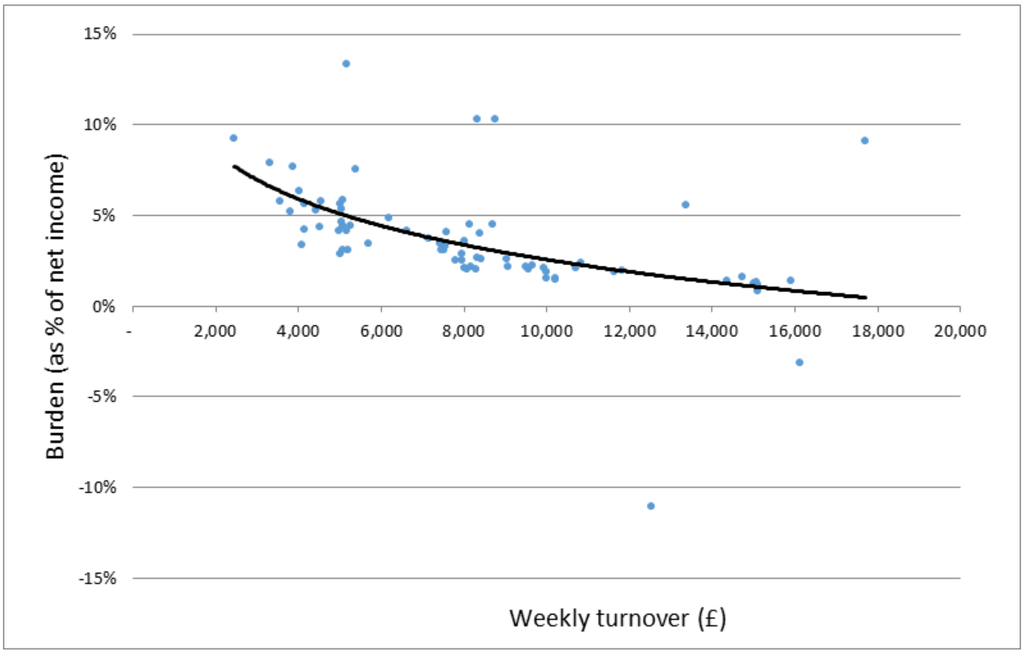
Some pubs could see increased business rates shave 5-10% off their current net income

Having seen the disproportionate impact of the increase in business rates by pub turnover, we now consider how much burden the additional business rates represent, by calculating the uplift in business rates (£1,000) as a proportion of each pub's net income. We do this for all pub company submissions across all pub typologies.

The results show significant variation across pubs in the sample, but with one key identifiable trend: the burden (i.e. the uplift in business rates as a percentage of net income) is greater for pubs with lower turnover. This is observed as the downward regression fit in Figure 3.3, which represents the "average" underlying relationship for the sample.

A steep increase can be observed towards lower pub revenues, with the average burden in excess of 5% for pubs with revenues below £5,000 per week. For some pubs in the sample the relief represents in excess of 10% of their net income, whereas for some very large pubs the relief is almost negligible.

Figure 3.3: Business rate increase (as % of net income) as a result of cancelling the relief



Source: BBPA data; Europe Economics analysis.

As many as 19% of pubs face a HIGH or VERY HIGH burden if the relief were removed

Having seen how the impacts vary across pubs, we now consider the potential number of pubs that could be affected. To do so, we estimate what share of pubs in each typology would face a significant burden if the business rates relief were removed. The analysis is based on the approximate number of pubs for different pub-types and typologies, as reported by the respondents to the BBPA “Running a pub” guide.

Looking at the analysis in Table 3.1 we can see that:

- There are a total of 166 pubs in our sample for which the removal of business rates relief represents a VERY HIGH burden (which we define as an impact of more than 10% on their net income). This equates to 5% of the total sample of pubs provided by the respondents.
- There are some additional 487 pubs (14% of the sample) for which the burden is HIGH (defined as an impact of between 5% and 10% on their net income).
- For 80% of the pubs the impact is MODERATE (less than 5% impact on net income).
- In two cases the net income is already reported as negative, i.e. prior to the removal of business rates relief. In such cases, the additional burden of removing the business rates relief would make net income even more negative. Together, these represent only 23 pubs (around 1% of the sample). Because of uncertainty in these data, they are excluded from further analysis.

In cumulative terms, we can therefore say that for 19% of pubs the burden created by removing the business rates relief is HIGH or VERY HIGH (i.e. constitutes 5% or more of their net income). We consider these pubs to be those most at a higher financial, as a result of the removal of the business rates relief.

Table 3.1: Number of pubs affected (counts and frequencies by burden)

Effect of burden	Burden (% of net income)	Number of pubs	Relative frequencies	Cumulative frequencies
VERY HIGH	+10%	166	5%	5%
HIGH	5-10%	487	14%	19%
MODERATE	0-5%	2,709	80%	99%
MORE NEGATIVE	Below 0%	23	1%	100%

Source: BBPA data; Europe Economics analysis.

The share of affected pubs is higher for small community and rural pubs

We now investigate the share of pubs facing HIGH or VERY HIGH burdens in each typology.

The results, as presented in Table 3.2, show that almost three quarters (73%) of community pubs with revenues of around £4,000 would face a HIGH or VERY HIGH burden. For rural pubs with revenues of around £5,000, around one third (30%) are expected to face a significant burden. The analysis also suggests that in some typologies (namely COMMUNITY_8K, COMMUNITY_15K and RURAL_8K) no pubs are likely to face a significant burden as a result of removing the business rates relief.[5]

Table 3.2: Affected pubs (HIGH or VERY HIGH burden) in different typologies (counts and share)

Typology	Affected pubs	Total pubs	Share
COMMUNITY_4K	336	463	73%
RURAL_5K	67	226	30%
CENTRE_10K	86	471	18%
COMMUNITY_5K	137	844	16%
TOWN_15K	12	84	14%
TOWN_10K	15	124	12%
REST*	0	1,173	0%

*REST includes the following pub types: COMMUNITY_8K, COMMUNITY_15K, and RURAL_8K.
Source: BBPA data; Europe Economics analysis.

Almost 3,800 pubs could be potentially at risk of closure

We extrapolated the above shares of pubs at risk in each typology in our sample to the full population of pubs in England. To do so we assigned each pub in the BBPA's database of pubs in England, as explained in Section 2.3. In the analysis we excluded those pubs with a rateable value of £12,000 or less, as they are not liable to pay business rates.[6] We also excluded those pubs with a rateable value of £100,000 or more, as they do not qualify for the business rates relief.

The analysis would also ideally need to exclude those pubs not eligible for relief on the grounds of State Aid rules (which limits public funding to a single organisation at €200,000 over a three year period). This would apply to pubs that are part of large managed pub chains. However, there is no robust means by which to

[5] These estimates are made on the basis that business rate bills quoted by pub companies in their 2017 submissions to the BBPA already include the £1,000 rate relief. Without this assumption the results are: COMMUNITY_4k 34%; RURAL_5K 30%; CENTRE_10K 18%; COMMUNITY_5K 16%; TOWN_15K 14%; TOWN_10K 12%; and REST 0%.

[6] We note that pubs with a rateable value of £12,000 to £15,000 only pay a share of their total business rates bill. However, as these pubs will nevertheless incur a positive business rates bill and hence suffer from the removal of business rates relief, we include them as part of the analysis in our extrapolation to the affected pub population.

remove these pubs from the estimation, as data limitations makes it difficult to identify them in the first place. That said, a significant portion of these pubs will already be excluded from the dataset due to the fact that their rateable value is £100,000 or more (as managed pubs which are part of large chains typically have higher rateable values). We therefore expect the number of pubs that are ineligible due to State Aid rules but with a rateable value less than £100,000 to be limited, and hence our results to not be materially affected by these.

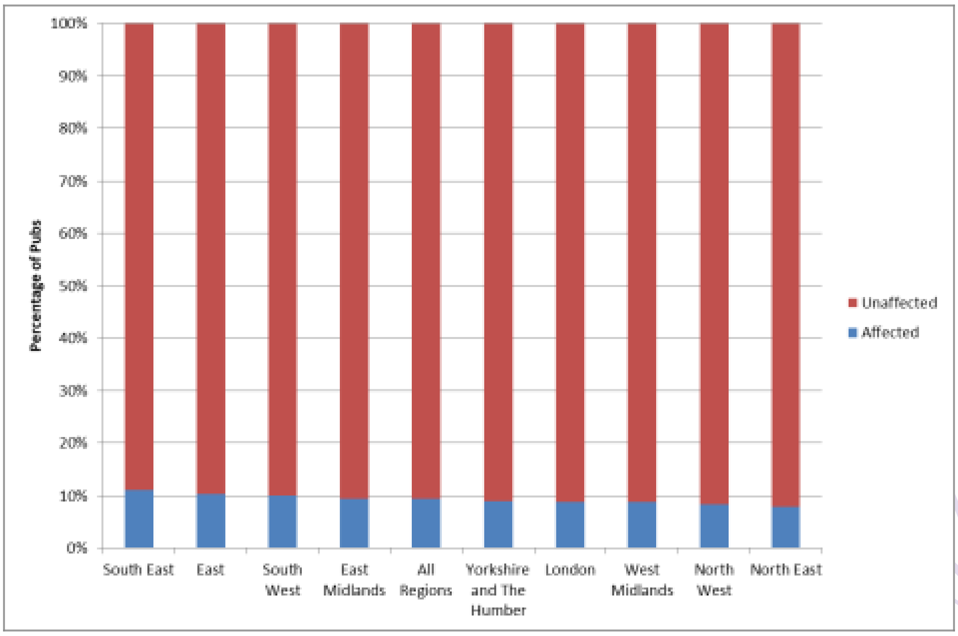
Based on the above methodology, we estimate the number of pubs affected by a VERY HIGH or HIGH burden at 3,788. This figure captures the number of pubs where the rates represent a significant increase in their burden and are therefore pubs for which there exists an increased potential risk of closing. It should be note that these are *in addition to* the current trend in pub closures of around 1,000 pubs per year. In reality, not all of the pubs we identify as potentially at risk would close, but even if say just one fifth of these were to close that would still equate to an additional 750 pubs closing (on top of the current trend of 1,000 closures per year). Thus the removal of business rates relief could serve to significantly exacerbate the current trend in pub closures.

The impacts would be felt more in particular regions of the country

We have found that the pub sector would suffer more in certain regions of England than others in terms of the HIGH or VERY HIGH burdened pubs. We have explored this effect by looking at how regions vary in terms of the share of different typologies of pub (having mapped each individual pub in England to a specific typology, as explained in Chapter 2).

The analysis finds the most affected region to be the South East, with 11% of pubs at risk (see Figure 3.4). The least affected regions would be the North East and North West, with 8% of pubs potentially at risk.

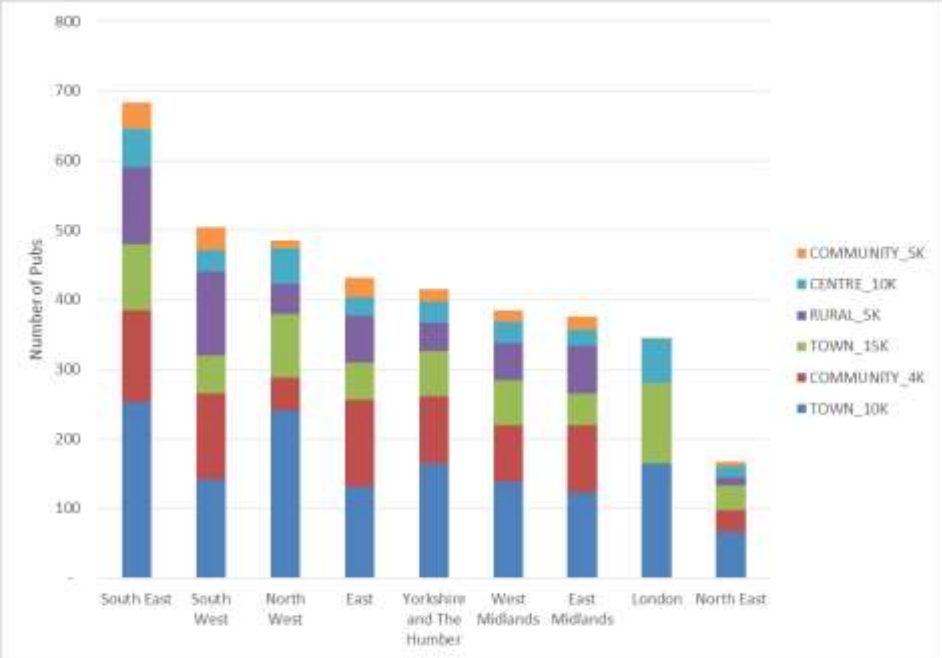
Figure 3.4: Percentage of affected and unaffected pubs by region



Source: BBPA and ONS data; Europe Economics analysis.

In terms of the total number of pubs (shown in Figure 3.5), we find that the South East could be the most affected, with almost 700 pubs at risk. All regions would see more than 300 pubs at increased financial risk, with the exception of the North East (167).

Figure 3.5: Affected pubs by region and by pub typology



Source: BBPA and ONS data; Europe Economics analysis.

Over 20,000 full time jobs, and almost 30,000 part time jobs, could be at risk

To analyse the impact on jobs we allocated the total pub sector wage bill by region (as estimated by Oxford Economics) to different pub typologies within each region, based on the share of pubs in each typology.[7] We then estimated the wage bill 'at risk' relative to the total wage bill, and applied this ratio to estimate the total number of full time and part time jobs at risk.

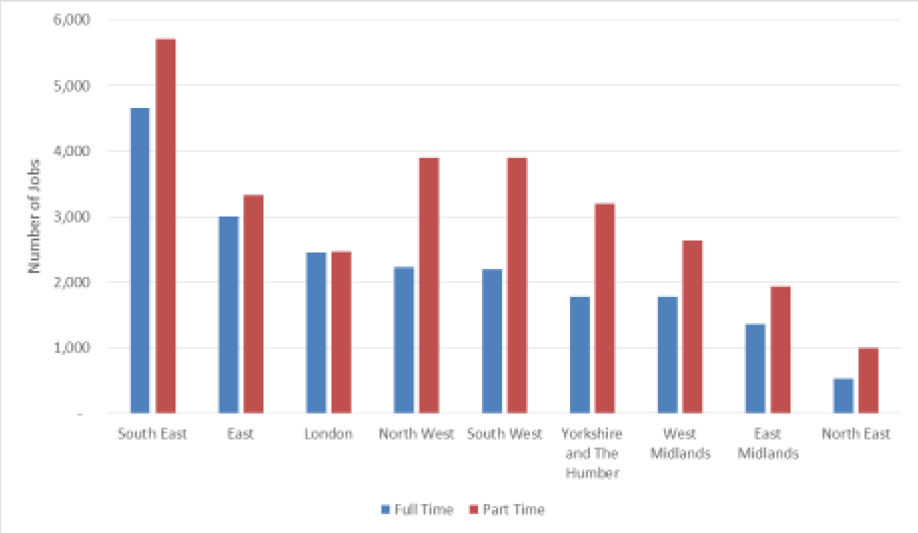
We find that the 3,788 pubs potentially at risk corresponds to around 20,900 full time jobs, and a further 29,200 part time jobs. It is unlikely that all of these pubs at risk would close, but again even assuming that just one fifth of these were to close it would imply significant employment losses: in the order of 4,000 full time and 6,000 part time jobs.[8]

Figure 3.6 shows the impacts by region. The South East is the most affected region, where pubs potentially at risk currently support 4,700 full time and 5,700 part time jobs. London and the North East would likely be the least affected.

7 This implicitly assumes that the pub sector regional wage is fixed and thus does not vary by pub typology.

8 We have cross-checked our findings using an assumed average employment per pub (across all typologies). Specifically, assuming 6 full time jobs and 8 part time jobs per pub, the total number of affected pubs translates to 22,700 full time jobs and 30,300 part time jobs (which is similar to the figures estimated from bottom-up regional aggregates presented in the main body of the report).

Figure 3.6: Number of full time and part time jobs at risk by region



Source: BBPA and ONS data; Europe Economics analysis.

For some pubs, an extension of the relief (up to £2,000) could be critical to survival

We already know that current trends are seeing 1,000 pubs close per year on average. It is also clear from our analysis of pub company submissions to the BBPA that some pubs are operating with very narrow margins, and these could be expected to be the next pubs to close if current trends continue.

An analysis of net income shows that 0.7% of pubs in the sample are already operating with negative net incomes, and a further 3.0% with a positive net income less than 2.5%. Applying this to the 48,350 pubs active in 2017, this equates to 1,800 pubs with a net income of 2.5% or less. For those pubs, a relief of £2,000 (an additional £1,000 rate relief per year) could be critical to remaining commercially viable (despite only equating to approximately £20 additional income per week this can have a significant impact on the viability of those with low incomes).

3.2 Impact of Proposal B (investment relief)

Proposal B is to introduce an investment relief, in the manner of a delay to the revaluation of a pub premise following investment for either two years or until the next revaluation period, whichever is longer. The logic is that a delay to the revaluation would make more investments commercially attractive and thus increase investment expenditure.

Delaying the revaluation could stimulate significant investment in the pub sector

The impact of this proposal on the incentive to invest can be considered by comparing the internal rate of return (IRR) of a given investment with and without the proposal in place. The IRR is used to evaluate the profitability of a potential investment, with a higher IRR implying that the investment is more desirable.

For this example, we assume an investment of £30,000, which is expected to generate an additional £30,000 in turnover each year (consistent with an industry view that investment generates additional annual turnover in a one-for-one relationship) and additional net income of 18% (equivalent to £5,400 per year).

In the absence of any change in business rates, the IRR for this project evaluated over a ten-year time horizon is 12.4%.

If revaluation and the business rate uplift were to take place immediately, this would result in an approximate £2,100 uplift in rateable value (i.e. 7% of the additional £30,000 annual turnover). This in turn would see business rates rise by just over £1,000 per year, assuming the standard business rate multiplier of 49.3p in 2018/19.[9] As a result, net income generated by the investment would be lower by about £1,000 (around £4,400 per annum). The upshot is that the IRR for the investment would fall from 12.4% to 7.5%. Therefore, the revaluation significantly weakens the incentive to invest (so, across the sector as whole, less investment is taking place than would occur in absence of revaluation).

Public intervention could help raise the IRR at least part way back to the 12.4% achievable in absence of any change in business rates. By delaying the revaluation for some time period, this would allow pubs to capture the additional net income generated by the investment without losing out straight away through higher business rates. As such, investment would become more attractive. Indeed, our analysis has found that the IRR would rise to:

- 8.9% if a two-year delay were introduced, and
- 9.5% with a three-year delay.

Introducing a delay in the revaluation can therefore represent a good compromise between the IRR under the 'no-revaluation' scenario (12.4%) and with immediate revaluation (7.5%). By raising the IRR in this way, this could stimulate materially more investment in the pub sector.

3.3 Impact of Proposal C (relief for community service)

Proposal C would introduce a relief to recognise pubs with community service offerings. Pubs, and especially community pubs, often play a key role in communities providing the premise for various initiatives and many services free, with many pubs already listed as Assets of Community Value.

Community pubs are more at risk financially

As seen earlier, it is the community and rural pubs which typically have lower net incomes and are therefore more at risk financially. Our analysis also shows that the share of "Community" and "Rural" pubs is likely to be small in comparison to the total pub population, constituting around 30% of all pubs in England (roughly 15% in each category).

Community pubs are about bringing people together and provide community cohesion

Losing a community or rural pub will not only produce a loss for the consumer of beer but will also affect those members of the community that attend pubs in search of company, or community cohesion. Some of these benefits may derive from a pub's strategic location. This may be in terms of providing support to local suppliers through the purchases of agricultural products and services, but it can go well beyond this by helping bring communities together through various leisure events: from the weekly quiz night to summer concerts in the pub's backyard.

Consideration of additional relief, or adjustments, to business rates for qualifying pubs could be a way to recognise the services these pubs provide freely to local communities. It will also be a way to improve the existing financial difficulties of community and rural pubs. The costs of helping such pubs is expected to be manageable, as these represent only 30% of total pubs.

[9] For business rate multipliers see: https://www.gov.uk/calculate-your-business-rates.