Written evidence submitted by the British Beer and Pub Association

The British and Beer and Pub Association welcomes the opportunity to submit evidence to the Treasury's Select Committee inquiry into jobs, growth and productivity after the coronavirus pandemic. A healthy beer and pub sector is vital for the prosperity of the UK. Pubs are at the heart of many communities, as well as contributing hugely to local economies. Pubs and brewing support 900,000 jobs across the UK, contributing £23 billion to the UK economy. Before the pandemic hit, one-in-fourteen young adults were employed to work in our sector, which generates nearly £13 billion in tax revenues for the Exchequer.

The Covid-19 pandemic has been the biggest crisis ever to hit the beer and pub industry and the impacts will be long lasting. The prolonged closure of the pub sector across the UK for the majority of the last 14 months means that publicans, the pub businesses that support them and the brewers that are reliant on them remain in a very precarious position. According to CGA[1], over 2,000 have already closed for good and many previously profitable brewing businesses have been lost. This has resulted in tens of thousands of local jobs disappearing and communities left without a critical asset that binds them together. For the remainder of the sector debt levels have spiralled and the future uncertain. Just considering beer sales in pubs and the wider on-trade, these have fallen by almost 70% in the last 12 months, wiping out more than by more than £9.6bn of sales value.

How much difference can government policy make to economic growth?

Inevitably the Covid-19 pandemic and the ensuing lockdown has had a massive impact on the UK economy, not least on the hospitality sector which remains among the longest and hardest hit. Naturally trade in pubs, and therefore trade for the breweries that supply them, will take a very long time to recover.

However, pubs hold the potential to generate the income needed to lower national debt and kickstart the economy again. There are five key areas that government policy can act upon which will support economic growth as we build back from the Covid-19 pandemic and ensure a job-rich recovery which develops towns and cities up and down the UK. We are asking the Government to adopt the following policies:

1. **Stick to the current roadmap, bring certainty.**
2. **Reduce beer duty in 2022-2023.**
3. **Extend the reduced VAT rate in place for food and soft drinks to all drinks, specifically including beer and with a view to permanently lower rates for hospitality.**
4. **Reform the Business Rates system.**
5. **Promote a supportive regulatory environment.**

1. Stick to the current roadmap, bring certainty. While economic support will help the sector, and has done greatly, our pubs and brewers want to return to normal trading as soon as possible. Since reopening outdoors on 12 April our pubs and brewers have begun trading again however at a significantly reduced rate, with the majority still operating at a loss. Figures from a survey of BBPA members on the first couple of

[1] https://cgastrategy.com/market-recovery-monitor-january-2021/

weeks of trading demonstrate that, whilst most pubs that have been able to open have traded well, when the large number of closed pubs are factored in, turnover has been significantly down. In week 1 this was down at around 53% of that in the same week in 2019, and by week 2 it had fallen to 46%.

The above figures, and the widely known impact on the sector of the past 14 months, highlight why it is imperative that the Government allows pubs to operate without restrictions as planned from 21 June. The current restrictions continue to harm our sector, with BBPA research showing that 40-50% of all pubs in the UK are still yet to open under the current restrictions.

It is crucial for the sector that the Government commits to following the dates the roadmap sets, as long as the positive data on vaccination and infection rates continues. That is why we are calling on the Government to end all trading restrictions by 21 June, to allow pubs to operate at their fullest possible capacity—this will give our pubs the best chance to get back on their feet and serve their communities, while coming back stronger once normality returns. The recovery cannot fully begin until restrictions have been lifted, any continuation of restrictions on capacity and the operation of pubs beyond the 21 June will be hugely detrimental to the sector. This comes as research by Localis revealed that pubs have a vital role to play in the Covid-19 recovery and Government's own levelling up agenda, but to do so they must reopen fully by June 21. Failure to do so leaves the future of pubs in danger without significant new injections of financial support.

2. Reduce beer duty in 2022-2023. This policy will help to protect the Great British Pub and the communities, jobs, and livelihoods that depend on it. Beer duty represents over 90% of a brewer's direct tax. It is a shocking fact that Britain pays more in beer duty each year than France, Germany, Italy, Spain and Ireland combined. With over 80% of beer consumed in the UK also brewed here, a tax on the industry is a tax on an entire supply chain, from grain to glass; a supply chain which supports so many jobs across the country. Beer duty is a particularly regressive form of taxation: the lower your earnings, the higher the share of income that is likely to be spent on beer duty. Lowering beer duty would support British Brewers, pubs, consumers, farmers and tens of thousands of jobs in the supply chain.

In addition, a cut in beer duty will make a significant difference in allowing pubs to continue to act as social hubs for people from all walks of life with many pubs running public services, as well as putting on community events and cultural activities. Pubs and brewers are invested in their communities' well-being and the sector's reaction to Covid-19 exemplifies the value of the sector to the community. A cut in beer duty will enable pubs to give back to their communities in numerous ways, facilitating means for the economy to bounce back from the pandemic and grow further.

The ongoing review of the wider Alcohol Duty Regime is a critical opportunity to develop a fair and sustainable tax regime that supports our world-renowned British beer and pub industry for the long term. It is a unique opportunity to rebalance the alcohol duty system towards lower-strength, fermented beverages such as beer. Beer is the lowest strength drinks category but the most expensive form of alcohol to produce and distribute. The duty regime must continue to recognise these differences between different beverages and we oppose any move towards taxing all alcoholic drinks on the same basis and at the same rate as part of the review. This would be detrimental to the UK economy and counter to public health goals.

The BBPA submission to the Alcohol Duty Review sets out why lower-strength products, such as beer, should pay a significantly lower equivalent rate of duty per % ABV (or unit of alcohol) than higher strength products, as is common throughout the world. A reformed duty regime should favour lower-strength products to create market conditions that encourage consumers to adopt them and to incentivise investment and innovation in lower ABV and non-alcoholic alternatives. On this basis we also propose an increase in the 2.8% threshold for defining lower-strength beer for duty purposes to 3.5% ABV.

3. Permanently lower VAT rates for hospitality include alcohol sales. A critical piece of the economic support provided to the hospitality sector during the pandemic, and reinforced in the last Budget, was the cut in VAT from 20% to 5% for on-trade food and soft drinks sold (increasing to 12% in October 2021). This has been a lifeline for many and should be made permanent to aid long term recovery, generate jobs and drive growth. However, for wet-led pubs re-opening in the summer 2020 with partial trade, higher overheads, and mounting debt, this was a benefit they could not enjoy, particularly as restrictions tightened meaning trade levels falling further and with losses mounting fast.

That is why we are calling for this lower VAT rate to also be extended to cover all drinks including beer. This policy is realistic for the UK Government to enact following the end of the Brexit transition period which sees an end to the EU's VAT Directives that prohibit reducing VAT on alcoholic drinks sold in pubs without being part of a meal.

We appreciate that VAT reductions of this sort represent additional investment in the sector, but the payback in jobs, wider economic growth and community wellbeing are significant; the BBPA urges Government to use its new powers to support the millions of lives and livelihoods that depend on our pubs and brewers across the country. Respected think tank Localis, also call for this in their recent report The Power of the Pub[2].

4.Reform the Business Rates system. We welcomed the Chancellor's announcement, partially extending the current Business Rates holiday for an extra 12 months, although the cap on relief will penalise large pub businesses. Ultimately though, a fundamental reform of the system is key to achieve a level playing field with many other business sectors, including online ones.

We welcomed the Government's announcement to align better the UK's tax regime to the realities of the 21st century economy through the introduction of a digital services tax, but we believe this needs to go further. Digital retailers often require the same services from their local councils as the shops on the high street, yet they maintain a substantial tax advantage due to the lack of a Business Rates tax equivalent for online retail. This new tax should be used directly to offset the burden of business rates to better reflect today's economy.

<u>Relative to their share of business turnover, before the pandemic, pubs were over-paying in business rates to the tune of £570 million</u>. This is simply not feasible moving forwards.

Covid-19 has worsened the cripplingly high burden of business rates and beer duty and this is perhaps most acutely seen when compared to digital firms' tax liabilities. Not only have those digital businesses continued to trade throughout lockdown, but it has also accelerated consumer trends towards online purchasing. The overall suite of taxes needs to be rebalanced to reflect a modern economy. Even before Covid-19, Amazon paid a mere £13.4m in corporation tax last year on turnover of £14.6 billion – this cannot represent their fair share. Amazon and other digital retailers must rely on the same roads, NHS services, etc. as those businesses on the high street. It matters what business occupies a particular space as they impact the social fabric of the UK differently – the pub is the heart of the community, preventing loneliness and isolation.

For property-based businesses generally, the rates multiplier must be adjusted downwards if the business rates system is going to remain a viable avenue for tax in the future. It has increased to a staggering 50.4p

[2] https://www.localis.org.uk/research/the-power-of-pubs/

today from a more manageable 34.8p in 1990/91. Moreover, it is not fit for a digital age. Digital retailers often require the same services from their local councils as the shops on the high street, yet they maintain a substantial tax advantage due to the lack of a Business Rates tax equivalent for online retail. We have previously supported proposals calling for a 20% cut in the business rates multiplier paid for by a 2% online sales tax on goods. At least a 20% cut in the multiplier is now needed.

For simplicity and fairness, we would also support a national multiplier across the country rather than any return to differential multipliers by region or property value. Any supplements should only be for specific projects as per the example of Crossrail. However, we do support a multiplier by property type which would be less distortive, particularly if set nationally based on agreed definitions. We believe a pub specific multiplier should now be considered to address the unique position faced by pubs and is the most practicable way to ensure pubs only pay their fair share of the rates burden going forwards.

Pubs are almost uniquely valued on the basis of turnover and this can be a significant disincentive to investment. Following investment involving structural alterations, pubs are liable to be revalued resulting in a significant increase in Rateable Value. This is a major disincentive to investment which generates additional tax income through VAT. This was recognised in the Barclay Review in Scotland and the recommendation, accepted by the Scottish Government, of at least a 12-month period before any increase in business rates following an investment. We would like to see this applied throughout the UK and extended so there is no revaluation of a pub premises on the back of investment for the longer of two years or until the following revaluation period.

Whilst we appreciate the measures taken to support businesses to date, now is the time to keep moving in the right direction. Either adjustment or amendment to the rates multiplier would play a major role in helping businesses build back better and stronger following the difficulties faced since the beginning of the pandemic.

5.A supportive regulatory environment. Following this crisis, we believe there is a unique opportunity to reset parts of the regulatory landscape and reduce red tape that has previously inhibited growth and effective operation of the hospitality sector. Many of these have grown up over time from piecemeal legislation, some are relatively new, but the unintended consequences are plain to see. Indeed, the vast majority of local authorities now actively support the diversification of hospitality businesses, including use of their outdoor space. Other elements work well for our sector but currently have been introduced as temporary measures and should instead be made permanent.

The hospitality sector in the UK has already been changed by Covid-19, and it is vital that the regulatory frameworks that we operate under not only reflect this but are used to support and revive business by putting them in the best position to succeed. We have identified a number of core areas where all governments of the UK, as well as local areas, can support and grow the hospitality sector, including:

- **A permanent shift towards planning and licencing deregulation to make greater use of outdoor spaces and takeaways**: Already, throughout the pandemic, some local authorities have used their licensing powers to support local pubs. However, to support pubs through the roadmap and into reopening, the Business and Planning Act 2020 should be reformed permanently to facilitate greater use of outdoor space and takeaway services and the late-night levy suspended. We welcomed the Communities Secretary announcement extending freedoms permitted to businesses for outdoor hospitality until 2022. However, in order to provide sustained support for the pub sector during its recovery, central government should make this extension permanently, offering pubs the flexibility needed to support the industry post-Covid-19.

- **A pause on plans to establish calorie labels on menus:** As part of the new obesity strategy, the Government will require large restaurants, which would include managed pubs operated by companies with more than 250 employees, to include calorie information on their food menus. We believe that such measures would be extremely costly for those pub businesses employing more than 250 employees at a time when they are recovering from COVID-19 and could also lead to restricted choice for consumers. This should be paused and reviewed once the sector has fully recovered from the pandemic.

- **Greater flexibility on use of apprenticeship levy for broader training:** With regards to both existing and new apprentices, the Government should implement greater flexibility for businesses to use their apprenticeship levy. Businesses should be able to use the levy to cover overheads that are genuinely incurred as a result of running an apprenticeship scheme. This would boost greater apprenticeship take up and confidence in the value of the current scheme with finances under such acute pressure currently.

How successful has the Government's pandemic response been in protecting jobs to date, and how can it help reduce and mitigate the economic scarring effects of the pandemic going forward?

The furlough scheme has undoubtedly been a huge support to the pub and brewing industry, helping to protect jobs and support employees and businesses as they felt the full force of negative economic impacts of the pandemic. Our data has shown that at one point over 90% of staff were receiving furlough support, many of whom would have been made redundant had they not been. It is important that the Government continue to support pubs, brewers and subsequently their employees. When fully operational pubs and brewers provide up to 900,000 jobs across the UK, contributing £23 billion to the UK economy.

Is the "Plan for Growth" an adequate replacement for the "Industrial Strategy"?

The beer and pub industry is widely spread across the country and one of the biggest contributors to the UK economy, therefore has a crucial role to play in the "Plan for Growth" and levelling up. For central government the first challenge is to ensure that pubs, which have had a particularly damaging year, are well-supported to survive, and then provided with a platform that will enable them to thrive as a key pillar in helping to level up Britain. Around one in twenty people in England, Scotland and Wales are employed in food and beverage service activities at any given time, vital to the foundation of a vibrant local economy. It is important that the "Plan for Growth" values the industry's potential as a leader in the pandemic recovery and levelling up efforts.

The Levelling Up Fund to 'invest in local infrastructure and support economic recovery' and the UK Shared Prosperity Fund, set up to replace European Structural and Investment Funds, will have a total value of £1.5bn a year, supporting places including 'former industrial areas, deprived towns, and coastal communities'. Taken together, both funds are central to closing the gap of regional inequality and deliver on the government's pledge of levelling up the UK. It is vital that the pub and beer sector is factored into the distribution of these funds and taken into consideration when building back better, current levels of support are inadequate in supporting local communities recover from the impacts of the pandemic. A failure to do so runs the risk of local economies and community resilience being left-behind parts of the country.

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