

16 Upper Woburn Place
London
WC1H 0AF

Mobile: 07554 669 002

Office: 020 3741 8253

www.thecca.org.uk

office@thecca.org.uk

Rt Hon Nicky Morgan MP,
Chair of the Treasury Committee
House of Commons
Committee Office
London,
SW1A 0AA

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The impact of Business Rates on business

Thank you for the opportunity to submit written evidence to the Treasury Committee's Inquiry into the *impact of Business Rates on Business*. Established in 1898 the Company Chemists' Association (CCA) is the trade association for large pharmacy operators in England, Scotland and Wales. Our members include ASDA, Boots, LloydsPharmacy, Morrisons, Rowlands Pharmacy, Superdrug, Tesco, and Well. Between them our members own and operate over 6,000 pharmacies, which represents nearly half the market. Our members deliver a broad range of healthcare and wellbeing services, from a variety of locations and settings, as well as dispensing almost 500 million NHS prescription items every year. The CCA represents the interests of its members and brings together their unique skills, knowledge and scale for the benefit of community pharmacy, the NHS, patients and the public. It is our vision that everyone, everywhere, can benefit from world class healthcare and wellbeing services provided by their community pharmacy.

The CCA's written submission is below. In relation to aspects of the Inquiry's terms of reference relevant to us, we specifically address the issues of:

- The need for urgent reform to Business Rates which we see as being unfair and overly burdensome
- The unique role of community pharmacies, supporting the work of the NHS both on high streets and within communities
- Specific problems relating to pharmacies co-located with general practices
- The uneven way in which State Aid regulations apply across the sector
- The introduction of a Pharmacy relief

We would be happy to provide more information as we are able.

Impact of Business Rates on Business

The need for urgent reform to Business Rates

1. We believe that Business Rates need urgent reform. The current system was established over 30 years ago with the repealing of the General Rates Act 1967 and the laying down of the Local

Government Finance Act 1988. This Act introduced the Non-Domestic Property (Business) Rates alongside its short-lived brother, the Community Charge (or poll tax). Whilst we recognise that the rates re-evaluation introduced in April 2017 means some businesses will now pay slightly less, we think that the way charges are calculated and applied can still undermine business confidence and deter investment. Business Rates are often the third highest cost to a business after wages and rent; and they apply irrespective of whether a business generates revenue or not. While Rates relief can apply to some new, small, or struggling businesses it is often too little, too late.

2. The Government should abandon the principle that the revenue it generates from Business Rates each year must remain constant, apart from increases for inflation, as this doesn't reflect the economic reality that businesses are facing. If a business's revenue falls then it should expect its Business Rates bill to fall too, but this isn't the case.

3. We call upon the government to review the process for assessing the rateable value of business property. Currently this is done every five years by the Valuation Office Agency (VOA), though the most recent reevaluation was delayed by two years. Rateable values are updated to mirror property rental values at only one specific moment in time, which means that business rates often rise at rates greater than inflation. As seen recently, the economic environment can change dramatically over a five-year period and while the value of business properties could decline over this period the business rates charged will not

4. We also believe that the 'Check Challenge Appeal' system is cumbersome and not fit for purpose. Businesses challenging the VOA over their rateable value often must wait over 2 years to get an outcome, whilst still having to pay rates based on the original 'inflated' rateable value.

5. Furthermore, we believe that the use of uniform, centrally set, multipliers, in addition to increasing rateable values, creates an unfair burden of tax on business. We have set out in paragraph three that business rates have grown ahead of inflation due to being linked to VOA set rateable values. The multiplier used to calculate rates, from the rateable value has also increased, from £0.348 to £0.491ⁱ, meaning that even if rateable value growth was fixed to inflation (which it isn't) Business Rates would have increased in real terms by an additional 41% since 1990. The practice of increasing the multiplier means that in effect the government is taking two bites from the Business Rates cherry.

6. In the current system large retailers get little to no relief from changes or exemptions, which means that they must absorb a larger share of the rates burden. It is large retailers that often serve as anchors in high streets, providing strong reasons for shoppers to visit and maintaining the overall attractiveness of the town centers. We have seen how the loss of 'anchor' tenants can accelerate a decline in footfall, especially in medium sized towns and cities in the country's heartlands. We call for a fairer way for obtaining rates from business.

The unique role of community pharmacies

7. We feel that it should also be noted that Business Rates do not take account of the important role that pharmacies play in providing access to healthcare in local communities. Community pharmacies are the trusted and convenient first port of call for episodic healthcare advice and treatment in the neighbourhoods and communities that they serve. The recent NHS Long Term Plan has highlighted the need for reform in the provision of urgent care across England. The NHS sees a core role for community pharmacies in providing safe and convenient access for those with urgent care needs, who currently have no viable alternative other than to book an out-of-hours GP appointment or to visit A&E. The NHS has also recently embarked upon a programme of withdrawing from GP prescribing lists medicines that patients can purchase from their local pharmacy. Without a viable and sustainable network of community pharmacies across England the NHS will face even greater challenges in providing the levels of care required by the nation.

8. Business Rates treat pharmacies in the same way as High Street retail outlets selling clothes, food etc. Whilst community pharmacies are commercial entities, their role supporting the NHS and patients ought to be recognised in a similar way to GP surgeries, which are also independent commercial entities, and who have their Business Rates reimbursed by the NHS.

9. Community pharmacy should also be considered differently to other businesses, as we are impacted in numerous ways by unilateral government decisions on funding, which are completely out of our control. For example, the imposition of a revised Community Pharmacy Contractual Framework in 2016/17 meant a 12% cut in funding for the services provided by community pharmacies to the NHS. Even though this reduction in revenue is government imposed, business rates for community pharmacies remain unchanged. (I refer you to my previous point in paragraph 2).

Pharmacies co-located with general practices

10. One notable problem concerns the Business Rates of pharmacies co-located with general practices. These pharmacies have seen huge increases in both their rents and their rates between the 2010 and 2017 valuation lists. This is because some of these pharmacies used to get valued on a per square foot basis and now get valued on a "rate per patient" basis – so the more patients the doctors have on their list, the more the pharmacies pay, whether those patients use the pharmacy services or not. This can then become a double hit when the rateable value also increases in line with the rent increase.

11. The VOA identified 1,390 pharmacies within, or adjacent to surgeries or health centers, and the average rateable value in England for that sector rose from £26,813 in the 2010 list, to £39,308 in the 2017 rating list (VOA 2016). This increase of 46.6% is extraordinarily high when compared to the 9.6% average increase for all properties, 10.6% for retail pharmacies, and 4.8% increase across the whole retail sector, outlining tangible issues in the valuation of these premises. Part of the problem is that there is no clear valuation methodology required by the VOA for these premises, so they can value on the goodwill or on a retail (per square foot) basis and the difference between the two can be tens of thousands of pounds.

State Aid Regulations

12. It goes without saying that pharmacies outside of health centers also have rates to pay, and on average these have also seen an increase in rates. We recognise that many community pharmacies have a rateable value of less than £51,000 and due to the October 2018 budget announcement, most of these pharmacies will benefit from 1/3 off their bills for two years from April 2019. However, for larger retailers the 1/3 reduction cannot be claimed even for their smaller premises as the relief granted is subject to De Minimis State Aid Limits (200,000 Euros over a 3-year period). There are many streams of relief which are subject to EU state aid regulations and therefore the larger regional and national pharmacy businesses are very unlikely to gain any benefit from this scheme. This creates an unfair market as the average benefit of the relief is up to £8,000 per year per pharmacy.

Pharmacy Relief

13. We recommend that a Pharmacy Relief be introduced to allow the community pharmacy network to survive in what is an increasingly challenging business market, at a time when the NHS is calling for a greater clinical role for the sector, set against a backdrop of reduced government funding.

14. We recognise that in some circumstances community pharmacies are located within other larger retail businesses, however we believe that there is a precedent for partial exemption of properties with regards to rateable valueⁱⁱ. We recommend that if there were to be a pharmacy relief granted, it would not be subject to State Aid Regulations, so all community pharmacies can benefit and be able to continue to support the NHS in providing great care for the communities they serve.

Once again, thank you for the opportunity to submit written evidence and we would be happy to provide more information.

Yours sincerely,



Malcolm Harrison
Chief Executive

ⁱ <https://www.gov.uk/calculate-your-business-rates>

ⁱⁱ Hamilton, Susan; Glover, Richard; Warren, Rupert (1998). "Rating and Council Tax". In Lord Mackay of Clashfern. [Halsbury's Laws of England](#). 39 (4th reissue ed.). London: Butterworths. pp. 461–649. ISBN 0-406-99789-6