

# Subsidy Advice Unit Report on Retail, hospitality and leisure business rates multipliers & pubs and live music venues relief subsidy scheme

Referred by HM Treasury

20 March 2026

**Subsidy Advice Unit**

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Part of the Competition and Markets Authority



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# CONTENTS

<b>1. The Referral</b> .....	<b>3</b>
Summary .....	3
The referred scheme .....	4
<b>2. The SAU's Evaluation</b> .....	<b>6</b>
Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use ....	6
Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change.....	9
Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible.....	12
Step 4: Carrying out the balancing exercise.....	17
Other Requirements of the Act .....	18

# 1. The Referral

- 1.1 On 4 February 2026, HM Treasury (HMT) requested a report from the Subsidy Advice Unit (the SAU)<sup>1</sup> in relation to the Retail, hospitality and leisure business rates multipliers & pubs and live music venues relief subsidy scheme (the Scheme) under section 52 of the Subsidy Control Act 2022 (the Act).<sup>2</sup>
- 1.2 This report evaluates HMT's assessment of compliance (the Assessment) of the Scheme with the requirements of Chapters 1 and 2 of Part 2 of the Act.<sup>3</sup> It is based on the information and evidence included in the Assessment.
- 1.3 This report is provided as non-binding advice to HMT. It does not consider whether the Scheme should be implemented, or directly assess whether it complies with the subsidy control requirements.

## Summary

- 1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the [Statutory Guidance](#)) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the [SAU Guidance](#)).
- 1.5 In our view, HMT has considered broadly the compliance of the Scheme with the subsidy control principles. In particular, the Assessment:
  - (a) clearly describes and evidences the market failure in relation to retail, hospitality and leisure (RHL) businesses that the Scheme seeks to remedy;
  - (b) clearly describes and evidences the equity objective that the Scheme seeks to pursue; and
  - (c) demonstrates that HMT has considered other ways of achieving its policy objective and clearly explains and evidences why subsidy was the most appropriate option.
- 1.6 However, we have identified the following areas for improvement. The Assessment should:

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<sup>1</sup> The SAU is part of the Competition and Markets Authority.

<sup>2</sup> [Referral of the proposed 'Retail, hospitality and leisure business rates multipliers and & pubs and live music venues relief subsidy scheme by HM Treasury - GOV.UK.](#)

<sup>3</sup> Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

- (a) in relation to Principle D, provide greater clarity on how additionality has been designed into the Scheme, including with respect to the breadth of beneficiaries, taking into account the practicalities of administering such a scheme;
- (b) in relation to Principle B, further explain how the overall 5p multiplier reduction and the additional 15% discount for pubs and for live music venues are limited to the minimum necessary to achieve the Scheme's objectives, and why the application of the 15% discount to all pubs and live music venues, regardless of rateable value, is considered the minimum necessary;
- (c) in relation to Principle F, more fully consider the potential effects of the Scheme on competition - including the impact on competition between corporate entities and between classes of provider that do and do not benefit from the Scheme - and outline the monitoring and evaluation plans in place to assess the competitive impact of the Scheme.

1.7 We discuss these areas below, along with other issues, for consideration by HMT in finalising its assessment.

## The referred scheme

- 1.8 Through the Scheme, HMT propose to make changes to the business rates<sup>4</sup> system to support RHL businesses by providing them with lower business rates multipliers<sup>5</sup> on qualifying RHL properties. Eligible RHL properties with rateable values (RV)<sup>6</sup> under £500,000 will pay business rates multipliers that are 5p lower than their non-RHL national equivalents.<sup>7</sup> These new multipliers will be permanent.
- 1.9 Further to this, pubs and live music venues will also benefit from an additional 15% relief on their new business rates bills for the tax year 2026 to 2027, ahead of their bills being frozen in real terms in tax years 2027 to 2028 and 2028 to 2029. This relief will be awarded to pubs and live music venues at the discretion

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<sup>4</sup> Business rates are a tax on non-domestic property in England.

<sup>5</sup> The multiplier is the tax rate which a business pays (set as pence in the pound), which is multiplied by the rateable value (RV) of the business property to determine the gross business rate bill for the property (any relevant reliefs will then be applied). RVs are determined by the Valuation Office Agency (VOA) and are intended to represent the annual rent a non-domestic property would achieve if let on the open market at a set valuation date. The VOA carry out a revaluation of all non-domestic properties' RVs every 3 years based on an 'antecedent valuation date' that is two years prior. The next revaluation will take effect on 1 April 2026 and will be based on market values on 1 April 2024. Until then, current bills are based on valuations from 1 April 2021.

<sup>6</sup> See footnote 5 above.

<sup>7</sup> Which properties are eligible for these new multipliers has been set out in The Non-Domestic Rating (Definition of Qualifying Retail, Hospitality or Leisure Hereditament) Regulations 2025. The Small Business Multiplier applies to properties with RVs <£51,000, the Standard Multiplier applies to properties with RVs between ≥£51,000 and <£500,000, and the High Value Multiplier applies to properties with RVs ≥£500,000.

of local authorities, who will determine eligibility using guidance published by the government based on existing definitions.

- 1.10 The Scheme aims to introduce a more permanent form of support for RHL properties in place of the temporary business rates relief which has been rolled over year-on-year and has varied in scope and generosity.
- 1.11 With the current RHL relief ending from 1 April 2026, the Scheme will lower the business rates burden that eligible RHL properties would have otherwise faced and help to ensure that a 'socially optimal' level of RHL businesses to serve in-person customers in England continues to exist.
- 1.12 The Scheme does not have a maximum subsidy amount or a cap on the level of relief which a business can benefit from for either policy. HMT has estimated the value of the Scheme at £4.8 billion. This comprises the total value of the RHL multipliers over the 5-year scorecard (around £4.4 billion<sup>8</sup>) and the expected cost of the pubs and live music venues relief over the next 3 years (around £400 million).
- 1.13 HMT explained that the Scheme is a Scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest to be given.<sup>9</sup> In particular, they identified a number of beneficiaries who will receive a benefit above £25 million over three years through savings from the lower RHL multipliers and the relief for pubs and live music venues.

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<sup>8</sup> In practice, HMT has explained that the RHL multipliers are largely funded by the new high-value multiplier that the government is also introducing on properties with rateable values of £500,000 and above, so the cost and revenue of the multipliers broadly balance out. HMT has explained that the around £4.4 billion cost is therefore how much the RHL multipliers are worth over the scorecard, rather than how much they are costing the Exchequer.

<sup>9</sup> Within the meaning of regulation 3 of [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) Regulations 2022](#) and [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) \(Amendment\) Regulations 2025](#) which set out the conditions under which a subsidy or scheme is considered to be of particular interest.

## 2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment, following the four-step structure used by HMT.

### **Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use**

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

- (a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and
- (b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.<sup>10</sup>

#### **Policy objectives**

2.3 The Assessment states that the policy objective of the Scheme is to rebalance the business rates system by lowering the business rates paid by RHL properties compared with what they would have paid without the Scheme, and by providing additional relief for pubs and live music venues. It explains that the Scheme will contribute to the Government's wider strategic objective of supporting the RHL sector, addressing a market failure whereby the market does not support a socially optimal level of RHL businesses, given the significant positive externalities they provide.

2.4 The Assessment explains that intervening through the business rates system will ensure that bills for RHL businesses remain lower than they otherwise would be, helping to prevent insolvencies and keeping costs for RHL businesses at a sufficiently low level that they can continue to operate. It explains that pubs and live music venues will receive greater support due to higher RV volatility and bill increases in these subsectors compared to other subsectors, which the Assessment states can cause greater financial uncertainty compared to many other RHL businesses.

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<sup>10</sup> See [Statutory Guidance](#), paragraphs 3.33–3.59 and the [SAU Guidance](#), paragraphs 3.6–3.10 for further detail.

- 2.5 The Assessment also sets out that the Scheme will ensure that RHL businesses continue to provide access to amenities and employment opportunities for disadvantaged demographic groups.
- 2.6 In our view, the Assessment clearly sets out the specific policy objective of the Scheme.

## **Market failure**

- 2.7 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.<sup>11</sup>
- 2.8 The Assessment states that there are significant positive externalities that accrue to other businesses and to individuals from the presence of in-person RHL businesses. In the case of other businesses these include agglomeration effects whereby the presence of one RHL business increases the likelihood that customers will pass by and interact with other businesses.<sup>12</sup> In the case of consumers, the Assessment describes how in-person RHL businesses facilitate a sense of community and pride in place as well as delivering mental and physical health benefits, amongst other benefits.
- 2.9 In our view, the Assessment clearly describes and evidences the market failure that the Scheme seeks to remedy for RHL businesses. However, it could more fully describe the distinct positive externalities generated by live music venues.

## **Equity Objective**

- 2.10 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.<sup>13</sup>
- 2.11 The Assessment states that RHL businesses play a vital role in helping disadvantaged demographic groups access goods and services as well as employment, and that intervention is therefore warranted to ensure the continued presence of RHL businesses.
- 2.12 In the case of retail businesses, the Assessment explains that physical access to nearby shops is vital for the wellbeing of people from disadvantaged demographic groups such as those who may struggle with mobility or those with disabilities as well as those less likely to have access to the internet.

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<sup>11</sup> [Statutory Guidance](#), paragraphs 3.36–3.51.

<sup>12</sup> The Assessment provides evidence for example that anchor stores can drive increases in footfall for non-anchor stores, and that customers initially drawn to one type of RHL business are more likely to spend money at other types nearby through linked trips or the 'halo effect.'

<sup>13</sup> [Statutory Guidance](#), paragraphs 3.52–3.56.

- 2.13 For hospitality, the Assessment explains that businesses that serve customers in-person are especially important to disadvantaged demographic groups by providing ‘third places’ outside of the home or workplace which are an important medium for social interaction among deprived neighbourhoods.
- 2.14 In leisure, the Assessment explains that the provision of leisure services to disadvantaged demographic groups supports positive equity outcomes by providing access to leisure facilities for disadvantaged socio-economic groups.
- 2.15 Further, the Assessment explains that RHL businesses generally are more likely to provide employment opportunities for disadvantaged individuals (including elderly or young workers, those with disabilities or those from lower socio-economic backgrounds) who may be overlooked for employment in other sectors.
- 2.16 The Assessment also states that pubs and live music venues in particular strengthen local communities, especially in rural towns and villages, by acting as social hubs and fostering community cohesion, health and wellbeing, and creating social capital whilst helping to reduce social isolation and loneliness.
- 2.17 In our view, the Assessment clearly describes and evidences the equity objective that the Scheme seeks to pursue.

## **Appropriateness**

- 2.18 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.<sup>14</sup>
- 2.19 The Assessment states that business rates relief is the most appropriate instrument to support in-person RHL businesses to achieve the policy objective. It presents data illustrating that the business rates burden is disproportionately high for RHL businesses with higher bills as a percentage of turnover compared to other sectors.<sup>15</sup>
- 2.20 The Assessment explains that it is most appropriate to target property-related costs, rather than other costs (such as staffing), to encourage the continued presence of physical businesses and realise the societal benefits which flow from their existence.
- 2.21 The Assessment considers alternatives to the Scheme. These include:
- (a) Direct provision: this was discounted as relying on local authorities to provide RHL goods and services, rather than private-sector operators, would lead to

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<sup>14</sup> [Statutory Guidance](#), paragraphs 3.5–3.59.

<sup>15</sup> Using the Office for National Statistics’s Annual Business Survey data from 2022.

less competition, less innovation and less consumer choice, as well as risking inefficiencies.

- (b) Commercial loans/equity investments: this was discounted as the Assessment concluded that, given the difficult business environment and precarious financial position for RHL businesses, injections of capital (requiring repayments) are unlikely to be an appropriate tool to promote RHL businesses' sustained existence.
- (c) Regulation: the Assessment explains that regulation will not cause an immediate and direct fall in property-related costs to offset the significant business rates costs for some RHL businesses, and that direct intervention in the property market through price caps for example would not support wider objectives or encourage improved market outcomes.
- (d) Direct grants: the Assessment explains that one-off grants would not be appropriate as it is simpler to funnel support through the existing business rates system as a tax cut, where the intervention can be more permanent and targeted to the RHL businesses that most need subsidy (including pubs and live music venues).

2.22 In our view, the Assessment demonstrates that HMT has considered other ways of achieving its policy objective and clearly explains and evidences why subsidy was the most appropriate option.

## **Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change**

2.23 Under Step 2, public authorities should consider compliance of a subsidy with:

- (a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and
- (b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.<sup>16</sup>

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<sup>16</sup> See [Statutory Guidance](#), paragraphs 3.60–3.74 and the [SAU Guidance](#), paragraphs 3.11–3.13 for further detail.

## Counterfactual

- 2.24 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the ‘do nothing’ scenario).<sup>17</sup>
- 2.25 The Assessment sets out a counterfactual scenario where, in the absence of any intervention, RHL businesses will face significant increases in business rates liabilities from April 2026 due to the revaluation and the end of existing RHL relief. It explains that this is compounded by the fact that pubs, live music venues and arenas have already experienced the most significant RV increases during the 2023 to 2026 revaluation at 30%, 44% and 145% respectively.<sup>i</sup> It further states that pubs and live music venues tend to generate low profit margins and therefore have limited headroom to continue absorbing cost increases.
- 2.26 The Assessment adds that, without the Scheme, RHL businesses with physical premises will continue to face a challenging business environment due to both demand and cost factors, which would be exacerbated by significant business rates, eventually leading to increased risk of (and actual) store closures and a loss of positive externalities.
- 2.27 In particular, the Assessment, citing evidence from market research and consultancy reports, notes that both demand and cost factors may worsen, increasing financial pressure, including insolvency/closure risk, for RHL businesses:
- (a) Demand factors: Declining demand for physical premises operated by RHL businesses due to competition from online businesses and changing habits such as remote working and online shopping.
  - (b) Cost factors: Increasing costs for energy, staffing, food, and regulatory compliance are already reducing profit margins for RHL businesses. In addition, business rates are a significant financial burden, with RHL businesses paying relatively higher rates relative to turnover and profit than other businesses.
- 2.28 In our view, the Assessment clearly describes and evidences what would be likely to happen if the Scheme was not implemented. It outlines the impact of the significant increases in business rates that RHL businesses would face, and the loss of positive externalities without the Scheme.

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<sup>17</sup> [Statutory Guidance](#), paragraphs 3.63–3.65.

## Changes in economic behaviour of the beneficiary and additionality

- 2.29 Subsidies must bring about something that would not have occurred without the subsidy.<sup>18</sup> They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy ('additionality').<sup>19</sup> For schemes, this means that public authorities should, where possible and reasonable, ensure the scheme's design can identify in advance and exclude those beneficiaries for which it can be reasonably determined would likely proceed without subsidy).<sup>20</sup>
- 2.30 The Assessment states that the Scheme is designed to incentivise changes in the economic behaviour of RHL businesses by mitigating the financial pressures arising from business rate increases. The specific behaviours being incentivised are:
- (a) preventing viable RHL businesses, particularly pubs and live music venues, from insolvency or closing down;
  - (b) increasing the financial viability of distressed RHL businesses so they can continue operating;
  - (c) providing long-term certainty about business rates, incentivising RHL businesses to invest in and grow their operations; and
  - (d) creating a competitive level playing field between independent and chain RHL businesses by removing the cash cap on relief and ensuring proportional support for all eligible properties.
- 2.31 The Assessment adds that the Scheme aims to achieve these changes in the economic behaviour by introducing new business rates multipliers for RHL properties with RVs under £500,000, thus reducing their business rates liabilities compared to the baseline scenario. For example, the average pub's business rate increase is reduced from [8%] to [5%], improving profit margins and encouraging continued operations.
- 2.32 The Assessment explains, supported by data, that RHL businesses, as a whole are unlikely to be able to absorb the significant business rates increases expected from 1 April 2026 without the Scheme because:
- (a) RHL businesses are already facing a difficult business environment as described above in paragraphs 2.26 to 2.27, which has created a challenging operating environment.

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<sup>18</sup> [Statutory Guidance](#), paragraph 3.67.

<sup>19</sup> [Statutory Guidance](#), paragraphs 3.66–3.70.

<sup>20</sup> [Statutory Guidance](#), paragraphs 3.71–3.73.

- (b) Many RHL businesses are experiencing financial hardship, as evidenced by data showing disproportionately high insolvency risks compared to other sectors.
- 2.33 The Assessment and supporting material include multiple data sources indicating that a proportion of the likely beneficiaries of the Scheme taken as a whole are financially distressed. This reiterates the high insolvency risk among RHL businesses, as well as the property-intensive nature of RHL businesses, which results in disproportionately high business rates burdens compared to other sectors. It also describes a consistent decline in the number of RHL businesses over the past decade, compounded by structural challenges and sector-wide financial pressures.
- 2.34 In addition, the Assessment describes how the £500,000 RV threshold is intended to capture smaller RHLs, which are more likely than their larger counterparts to be financially distressed contributing to the additionality of the Scheme.
- 2.35 In our view, taken as a whole, the Assessment explains and evidences how the Scheme will change beneficiaries' economic behaviour and that the Scheme brings about changes that would not have occurred absent the Scheme.
- 2.36 However, the Assessment should provide greater clarity on how additionality has been designed into the Scheme, including with respect to the breadth of beneficiaries, taking into account the practicalities of administering such a scheme. For example, the Assessment could seek to identify and evidence estimates of the proportions of beneficiaries:
- (a) for which the support will make a tangible difference to viability;
  - (b) which would have been able to accommodate increase in business rates without the Scheme; and
  - (c) for which the Scheme will not be enough to prevent closure.
- 2.37 The Assessment should also explain how the additional support to pubs and live music venues is designed to ensure additionality, in particular addressing why there is no RV threshold, in contrast to the wider Scheme.

### **Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible**

- 2.38 Under Step 3, public authorities should consider compliance of a subsidy with:
- (a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and

- (b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.<sup>21</sup>

## Proportionality

- 2.39 The Assessment states that the Scheme consists of two elements: new multipliers for RHL properties that are 5p lower relative to non-RHL businesses, and an additional 15% discount on business rate bills specifically for pubs and live music venues. These elements are expected to be worth £900 million and £150 million annually respectively.
- 2.40 The Assessment states that the 5p reduction for RHL properties ensures the support it provides to in-person RHL businesses is proportionate. The main reasons stated are:
- (a) The rate cut is a ‘pence in the pound cut’ meaning that the support provided to a business property in absolute terms is proportionate to the size of that premise, minimising deadweight loss.
  - (b) The small business RHL multiplier will be a lower rate than the standard RHL multiplier, replicating the two national multipliers and ensuring that low RV properties with the lowest ability to pay will gain a larger tax cut as a percentage of the applicable standard multiplier.
  - (c) The magnitude of the cut has been limited to 5p. The Assessment explains that a larger cut would be more than what is necessary to prevent against insolvencies for most parts of the RHL sector because it would deliver bill reductions, rather than just limit bill increases.
- 2.41 The Assessment explains the 15% discount for pubs and live music venues is proportionate as it limits bill increases, whereas a larger discount would reduce their business rates liabilities below current levels which would go beyond the Scheme’s objective. The Assessment further explains that, if pubs did not receive further support, then the majority would see bill increases large enough such that the separate transitional relief policy would apply to them.<sup>ii</sup>
- 2.42 In our view, the Assessment partially demonstrates and evidences that the Scheme is proportionate and limited to the minimum necessary to achieve its specific policy objective, in line with the Statutory Guidance.
- 2.43 However, the Assessment should more fully explain, for both the overall 5p reduction and the additional 15% discount for pubs and for live music venues, how each of these measures are limited to the minimum necessary. This should

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<sup>21</sup> See [Statutory Guidance](#) paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18 for further detail.

include why the application of the 15% discount to all pubs and live music venues, regardless of rateable value, is considered the minimum necessary.

- 2.44 This could be done, for example, through sensitivity testing to analyse how, at different levels of support to RHL properties, including to pubs and to live music venues, their average business rates liabilities and the proportions set out in paragraph 2.36 would vary.

### **Design of subsidy to minimise negative effects on competition and investment**

- 2.45 The Assessment explains that the 5p reduction is designed to minimise its distortive effects in that:

- (a) it is indefinite so as to provide long-term certainty to RHL businesses. The Assessment cites survey evidence that hospitality businesses would have been negatively affected by continued uncertainty over the magnitude of business rates relief without the Scheme. It notes the 5p reduction will be monitored as part of HMT's wider taxation policy to ensure that it is providing the right level of support to the appropriate properties;
- (b) unlike previous versions of business rates relief for RHL, there is no cap on the absolute amount of relief a business can receive. Therefore, larger businesses with more RHL properties will receive the same proportion of support as smaller ones;
- (c) it applies to all properties that are wholly or mainly used to provide a RHL activity to visiting members of the public, including those run by local authorities. Properties which are wholly or mainly used to distribute goods for online sales, such as warehouses, are excluded;
- (d) RHL properties with an RV of at least £500,000 will not be eligible to business rate relief under the Scheme, which reflects their greater ability to pay. The Assessment explains that only the most valuable properties have RVs above £500,000 (which is approximately 1% of all RHL and non-RHL properties combined, or around 21,000 properties).

- 2.46 The Assessment explains that the 15% discount for pubs and live music venues is designed to minimise its distortive effects in that:

- (a) it is limited to where there is the strongest need for support; and
- (b) the 15% discount is limited to three years. This aligns with a review of how businesses are valued ahead of the 2029 revaluation which may remove the need for additional support for pubs and live music venues.

- 2.47 In our view, the Assessment explains how some design features of the Scheme contribute to minimising any negative effects of the Scheme on competition and investment within the United Kingdom.
- 2.48 However, the Assessment should further consider and explain the monitoring and evaluation plans for both the 5p reduction and the 15% discount.<sup>22</sup> It could, for example, explain which indicators will be monitored over time for evidence of distortive effects.
- 2.49 Additionally, the Assessment could further explain:
- (a) The nature of the costs being covered, noting that that business rates, as a type of property cost, are a fixed cost, in contrast to a variable, day-to-day cost where subsidies are more likely to impact competition.<sup>23</sup>
  - (b) How the RV threshold for the 5p support was chosen. The Assessment could, for example, explain how many RHL properties, both in general and of particular types, have RVs over £500,000.

### **Assessment of effects on competition or investment**

- 2.50 The Assessment addresses three particular possible distortive effects from the Scheme.
- (a) Effect on excluded online-oriented properties. The Assessment acknowledges that the Scheme could disadvantage online retailers and so affect investment in them. It considers that any distortive effects result from the Scheme's targeting of in-person businesses. It explains that online retailers do not face the same difficult business environment as in-person retail; have lower business rate liabilities; and do not carry the same positive externalities as in-person retail identified in Step 1.  
  
The Assessment evidences both of these points by comparing several in-person RHL activities with their online-only competitors. It considers that the Scheme 'levels the playing field' between in-person and online business models and any distortive effects result from targeting the subsidy to deliver this.
  - (b) Effects on properties with RVs over £500,000. The Assessment acknowledges that RHL properties, which are not pubs and live music venues, with RVs over £500,000 are disadvantaged (by not receiving any business rates relief), and thereby this may affect investment in them. It explains that properties with these RVs have the greatest ability to pay for

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<sup>22</sup> See [Statutory Guidance](#), paragraphs 3.108–3.110.

<sup>23</sup> See [Statutory Guidance](#), paragraphs 3.102–3.103.

higher business rates. It also explains that larger, out-of-town RHL properties have had lower increases in their RVs than smaller shops.

- (c) Effects from competition between pubs and non-pub hospitality. The Assessment argues that there is no evidence that pubs will pass on the reduction in their business rates in their pricing, partly because the relief ensures that their business rates liabilities increase by less than otherwise would be the case rather than by reducing them. It identifies licensed restaurants as an example of other hospitality businesses which are in the most direct competition with pubs and notes that their number has increased since 2010.

2.51 The Assessment also explains that, given the general financial hardship of RHL businesses, it is highly unlikely that the Scheme will enable RHL businesses to cut prices, because the Scheme is intended to limit the increases in business rate liabilities they face.

2.52 In our view, the Assessment considers and evidences some of the effects of the Scheme on competition and investment, in line with Annex 3 of the Statutory Guidance.

2.53 However, to assess the Scheme's distortive effects on competition and investment more fully, the Assessment should:

- (a) consider the effects on competition between companies active in the RHL sector, rather than between properties. Here, the Assessment could consider how the benefits to different types of property scale up to benefiting certain companies more or less than their competitors;<sup>24</sup>
- (b) address whether, in the long-term, the Scheme may enable businesses treated more favourably to operate less efficiently than their competitors but still remain in the market; and whether this could disincentivise entry; and
- (c) more comprehensively address the potential competitive effects of the 15% discount (a) for pubs and (b) for live music venues on other hospitality businesses they may compete against, for example licensed restaurants.<sup>25</sup>

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<sup>24</sup> For example, the Assessment could address whether the £500,000 RV threshold for the 5p reduction may result in RHL businesses which operate fewer but larger stores with very high RVs being disadvantaged relative to competitors which operate more, smaller stores. This analysis could be done, for example, by using data on the types of RHL properties with RVs over £500,000 and who operates them. More generally, the Assessment could use more illustrative scenarios based on data on average RVs by property type.

<sup>25</sup> Here, the Assessment could identify the relevant product markets within which pubs and live music venues compete. Additionally, it could analyse the effect of pubs and live music venues with RVs over £500,000 benefiting from the 15% discount whereas RHL properties with RVs over £500,000 will receive no benefit from the Scheme.

## Step 4: Carrying out the balancing exercise

- 2.54 Under step 4 (principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.<sup>26</sup>
- 2.55 In terms of benefits, the Assessment states that RHL businesses play a vital role in supporting disadvantaged groups by providing access to goods, services and employment, and that intervention is warranted to ensure their continued presence. It explains that retail supports those with mobility or digital access challenges, hospitality venues provide important social spaces, and leisure services promote health and equity outcomes.
- 2.56 The Assessment also describes how the sector generates wider benefits such as community cohesion, pride in place and reduced social isolation, particularly through pubs and live music venues acting as social hubs, especially in rural areas (see paragraphs 2.11 to 2.16 for further detail).
- 2.57 The Assessment also discusses potential negative effects of the Scheme. This includes:
- (a) Sectoral effects. The Assessment acknowledges that, because the Scheme is targeted at properties wholly or mainly engaged in RHL activity, online retailers and storage warehouses will not benefit. It explains that this reflects the policy objective of supporting in-person RHL businesses, which face different cost pressures and generate distinct externalities.
  - (b) Effects on higher value properties. The Assessment recognises that RHL properties liable for the Higher Value Multiplier may face a small competitive disadvantage where they compete with properties below £500,000 that receive a subsidy. It explains that higher value properties are considered better able to absorb rate increases and that support is targeted at smaller properties.
  - (c) Impact between England and the rest of the UK. The Assessment notes the potential for limited competitive effects in relation to RHL properties near the border with Scotland or Wales, but considers these likely to be minimal given the local nature of in-person RHL activity.
- 2.58 In relation to international trade, the Assessment concludes that such effects are unlikely, as the Scheme limits rate increases rather than reducing costs, and

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<sup>26</sup> See [Statutory Guidance](#), paragraphs 3.113–3.121 and the [SAU Guidance](#), paragraphs 3.19–3.21 for further detail.

most RHL businesses operate in local markets with limited international exposure.

2.59 In our view, the Assessment sets out the positive effects of the Scheme in relation to the policy objectives, its geographic impacts, as well as potential negative impacts.

2.60 However, to the extent that HMT makes changes to its assessment in Step 3, on the basis of this report, these would need to be reflected in the balancing exercise of Step 4.

## **Other Requirements of the Act**

2.61 HMT confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Scheme.

**20 March 2026**

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<sup>i</sup> Paragraph 2.25, second sentence should read: 'It explains that this is compounded by the fact that pubs, live music venues and arenas have already experienced some of the most significant RV increases during the 2023 to 2026 revaluation at 30%, 44% and 145% respectively.'

<sup>ii</sup> Paragraph 2.41 should read: 'The Assessment explains the 15% discount for pubs and live music venues is proportionate as it limits bill increases, whereas a larger discount would reduce their business rates liabilities below current levels which would go beyond the Scheme's objective. Most pubs seeing large increases in their rateable value will be on the 15% transitional relief (TR) cap in 2026/27. The 15% discount for pubs and live music venues applies separately, on top of this and after the TR cap and other reliefs, resulting in a proportionate discount level.'