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The Rt Hon Dr Vince Cable MP
Secretary of State for Business, Innovation & Skills

5th July 2013

Dear Dr Cable,

Government Consultation on Pub Companies and Tenants

I am writing in relation to the Government's consultation on establishing a Statutory Code and an Independent Adjudicator for the pubs sector.

I am the Managing Director of Bridgewood, an independent company which specialises in supporting the pub sector. Bridgewood provides accountancy services to over 110 pub tenants and, more importantly, also delivers advice and solutions to pub tenants who are experiencing financial difficulty – and in this capacity we have sought to help nearly 800 pub tenants over the last 3 years.

In our dealings with pub tenants we have, quite naturally, got to know and understand many of the larger pub companies (most notably Enterprise Inns, Punch Taverns and Marston's) and have witnessed first hand their *modus operandi*. We also work closely with the Helpdesk at the British Institute of Innkeeping and interact with many other accountancy firms operating in this sector. I can therefore confidently state that we have a deep knowledge and understanding of the sector, and it is from this position that I would like to respond to some of the charges being levelled at the large pub companies.

Firstly, it is our view that the Voluntary Code is generally working well. It has provided a clear framework for addressing rent levels and for raising complaints, and ensures transparency in relation to tenant obligations and potential liabilities. The Codes of Practice produced by each pub company are in themselves well written and easy to follow – a good tenant will use them as a reference guide, and will have a sound understanding of their obligations as well as those of the pub companies.

Across all of the cases we have been involved in we have found no evidence of pub companies operating outside of the code. Indeed on many occasions when a tenant is leaving a pub site, we have noted that the pub company does not apply the fees and charges that they would be entitled to under the terms of their Code of Practice, on the basis that this would burden the tenant with additional liabilities.

Secondly, we do not see widespread evidence of “well-managed pubs being driven to the wall by exploitative financial practices”. Of course we see many pubs unfortunately failing, but this is not explicitly on account of exorbitant rents and beer prices being charged by the pub company. In a great many instances the pub company had already reduced the rent substantially, as well as offering beer discounts, as a way of supporting the site – we have seen hundreds of examples where the pub company has done this. The fact that the site still fails is due to other external factors, or simply that the tenant was neither a good operator nor a good business person.

In cases where the pub company has not reduced its rent or beer prices to support a tenant, this is often because the tenant has been unable or unwilling to provide financial information to the pub company (management accounts and VAT calculations in particular) in order to help them make an informed decision about rent levels or additional support. In fact, one of the biggest issues we encounter in the pub sector is that pub tenants are not maintaining financial records or appropriate controls. This means that they are often unable to properly manage their business, and it is certainly unrealistic to expect the pub company to sacrifice their own margins without the tenant first disclosing the true financial picture at the site – you wouldn’t go to your bank without up to date accounts or a financial forecast and expect them to provide support, so why should pub companies be any different?

The days when a pub tenant gets their accounts produced once a year as part of their Self-Assessment Tax Return are long gone, and yet there remain a significant number of tenants who adopt this approach – but in doing so they are “flying blind” and putting themselves at financial risk. To help address this issue pub companies such as Enterprise Inns and Punch Taverns have invested considerable time and cost in establishing panels of approved accountants. These accountants are required to provide a very high standard of accountancy support to the tenant, including monthly Management Accounts, VAT Returns, Annual Accounts, Payroll Services and stock takes – often for as little as £245 per month plus VAT. This support to pub tenants is in turn helping pub companies make more timely decisions about when to review rents or to put additional support measures in place.

Finally, I do not believe that removing the beer tie will necessarily result in individual tenanted sites becoming more profitable - for a start industry data indicates that the failure rate within free houses is on a par with tied houses, which suggests that other more important factors are at play. In our view achieving a successful pub is a function of; good financial management; effective marketing; the right products, correctly priced; and great customer service. Unfortunately most individual pub tenants do not have the skills or financial resources to deliver these things by themselves. This is where the existing tied model works really well, because the pub tenant has access to a vast array of additional resources provided by the pub company, often free of charge. For example Enterprise Inns offer a number of courses free of charge to tenants covering important aspects such as food retailing, marketing and business development. They also help their tenants get the best deals with utility providers, and to put forward a business rates appeal if this is deemed appropriate.

Pub companies provide these services because they add value and support the “Partnership Arrangement” that exists between them and the tenant – i.e. the more the pub company helps the tenant develop their business, the more beer the tenant sells, and therefore the more money the pub company makes. Everyone wins. However by removing the tie and imposing a statutory code runs the risk of simply turning pub companies into property landlords, with no vested interest in helping the tenant grow and develop their business. This could, in my view, result in more rather than fewer failures.

In summary, I trust that my letter has been informative and constructive. I wish to stress again that Bridgewood is totally independent and does not operate under the bidding or direction of any pub company. I am simply reporting what we have seen through our interactions with nearly 800 pub tenants over the last 3 years, and wish to state it for the record.

Please don't hesitate to come back to me if you require further information.

Yours sincerely,

Robin Tarling
Director