

Date: 13th June 2013

Dr. Vince Cable MP
Secretary of State Department of Business Innovation and Skills
1 Victoria Street
London
SW1H 0ET

By Post and e-mail

Dear Dr Cable,

Re: Pub Companies and Tenants – A Government Consultation

I write to you in connection with the above consultation. I am a Chartered Surveyor with over twenty years' experience of the pub business and have held senior positions in Whitbread, Laurel Pub Company, Punch Taverns & Enterprise Inns (ETI) as well as working as a voluntary consultant for Pub is the Hub. I have also worked as a consultant for a leading firm of business valuers and advisers. My current role is that of _____ for Enterprise Inns, with responsibility for _____ public houses.

The views expressed in this letter are entirely my own and are based on the evidence that I have seen at first hand.

It may be the case that 18 pubs have been closing per week across the UK but I would argue that in many cases this is despite rather than because of the tied pub model. At the bottom end of the market many pubs are only kept open because they are subsidised by the pub company that owns them.

The biggest drivers for pub closure are changes in the drinking habits of consumers, driven at least in part by the fragility of the UK economy; the bureaucracy associated with running a pub (or any other SME) and the financial burdens imposed by central and local governments. Business rates represent a disproportionate burden upon public houses and it is not uncommon for this to be the second highest business expense behind wages.

My experience has enabled me to see at first hand the workings of both the tied and free of tie (FoT) business model within the industry and I have to say that the picture outlined in your consultation document has very little to do with reality.

Much of the content of the document is misleading. It appears to be based on dogma and is lacking in any degree of substance. Where is the evidence to support the claim that self-regulation by the pub companies has not worked? How many genuine complaints are there against ETI and how does this compare as a percentage of the number of publicans?

It is hardly surprising that the ETI represents the highest proportion of calls to the BII hot line as the company owns the most pubs in the UK by some margin. Moreover, the BII confirms that the hot line exists to provide help and advice to its' members and yet the document fails to split the number of calls into requests for advice e.g. on dealing with the bureaucracy of running a small business, and a genuine grievance against a landlord. The BII has indicated that in the three year sample period, four out of 276 calls relating to ETI were recorded as

grievances. I think it is also interesting to note that the time period for this sample begins before the introduction of self-regulation in 2011 and is therefore used out of context.

The document states that 7/10 publicans would sign up again with their pub companies. Of the 30% who would not, how many have simply decided to retire or that it is time for a change of occupation? To put this in to context, a recent study showed that 47% of people in the UK would like to change jobs (This is Money.co.uk).

The consultation paper suggests that pub companies abuse their position of power by withholding information from would-be publicans. Nothing could be further from the truth. Despite much of the rhetoric, it is simply not in the interests of any pub co. to allow a publican to go into a pub with an expectation of them failing. To this end ETI, along with most, if not all, of the major players does all it can to ensure applicants are provided with as much information as possible before the publicans are allowed to submit a formal application for a lease or tenancy.

Information provided includes details of the pubs' trade history. This is limited to sales which can be verified by the company and does not include food turnover or products which are bought outside of the tie. Removal of the tie would severely impact the ability to provide such information to applicants, thus weakening their position

Far from allowing innocents to wander blindly into inevitable failure, all applicants must attend an accredited training course or demonstrate that they hold a suitable qualification. They are required to provide a detailed business plan which must be endorsed by a qualified licensed trade accountant. ETI pays for this service and also pays for BII subscriptions for new entrants to the trade. I know of no FoT pub operator who provides such support for their tenants. Throughout the application process applicants are encouraged to seek independent professional advice on all aspects of the deal.

In my work with Pub is the Hub, I would estimate that c 80% of the pubs that have come forward looking for advice and assistance are FoT operations who simply have not had access to the support that is provided under the tied model.

In my current role I am responsible for a capital investment programme of c £ M per annum. This year approximately one third of that budget will be spent on schemes that will assist publicans to protect and grow their business. This gives publicans the ability to enjoy the benefits of capital investment which, due to the constraints imposed by the banking industry, they would otherwise be unable to access. The changes you propose will severely undermine the ability for pub companies to continue to invest in this way and leased and tenanted pubs will become even more disadvantaged versus the larger managed operations, resulting in more failures.

At the heart of the consultation is the dogmatic notion that a publican must be no worse off under the tied model than if the pub were let on a FoT deal. This would appear to be unworkable and will inevitably lead to increased complexity and bureaucracy & uncertainty. In many cases the FoT option would be entirely hypothetical since the pub would simply not be available on such a deal. How much time and money will be wasted in trying to assess the hypothetical position.

I am intrigued at the wish to re-distribute income between landlord and tenant. Will this include surcharges on publicans who have the good fortune to enjoy "super profits"? (I have recent first-hand knowledge of more than one tied lease changing hands for in excess of £100,000. Some of this may be down to the goodwill generated by their efforts but in most cases it is driven by the location of the property which they hold on a lease for which no initial premium was paid.

The average value of an ETI pub is in the region of £ 00,000 (extrapolated from the latest interim results). The tied model gives publicans the ability to enjoy the use and benefit of such an asset at a very low cost of entry. Whereas the traditional "profits method" of valuing a pub reflects the opportunity cost of the working capital that the tenant has tied up in the business, it makes no allowance for the landlord's cost of capital. At a typical rate of 8%, this would put the average cost to the landlord of c £ .000 per annum. How will this be reflected in the overall distribution of profit?

I could take numerous other issues with the content of the consultation document. In summary, I would say that it is flawed and misleading; the proposals are disproportionate to the true issues and will lead to even more uncertainty in an industry that has seen more than its' share of turmoil as a result of government meddling in the past 25 years and ultimately will lead to a higher number of pub closures.

Yours Sincerely