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From:
Sent: 13 June 2013 07:05
To: Pubs Consultation Responses
Cc:
Subject: BIS Letter 20130611
Attachments: BIS Letter 20130611.doc

Dear Sirs

Please find attached my feedback on the BIS Consultation paper into the relationship between Pub Co's and leased and tenanted pub operators. If I could please ask that you review its content and come back to me with your considered responses. Overall I would urge the government to take a much lighter touch than is currently being proposed and to pull back on statutory regulation, which if implement could have a far reaching negative impact on the British Pub trade and the businesses that support them.

Yours Sincerely

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04/12/2013

Vince Cable
Dept. of Business, Innovation and Skills
1 Victoria Street
London
SW1H 0ET

12 June 2013

Dear Mr Cable

Re : Pub Companies and Tenants – Government Consultation

I have today reviewed the above consultation paper and am extremely concerned by the prospect of what is being proposed and the negative light with which it portrays Pub Operating Companies many of which operate in a fair and responsible manner, often under challenging economic conditions and in a true spirit partnership with their tenants.

I am writing to you in my capacity as an individual albeit I would like you to know that I am a Director of Enterprise Inns PLC and as such have a clear working knowledge of how this business strives to conduct itself and its core values. I must say that a lot of what I have read is alien to my knowledge of the business and I can only surmise that the views of a few are being unreasonably extrapolated and transposed across businesses of a similar type without just foundation. So that you may more fully understand my views I have detailed below, in bullet point format, some specific items from the consultation paper that are either unduly biased, poorly considered or inaccurate to the extent the proposal itself is fundamentally flawed. I have the firm view that much more consideration and contextualisation is needed before reaching a conclusion of mandatory regulation being needed, which if implemented, could have a far reaching range of unintended consequences both for pub businesses and the wider economy.

- The subtext of the report is very biased. In several cases it positions high beer prices as being a reason to offer much lower rents than is currently the case. This is not necessarily the case moreover rents are derived responsibly from stress tested P&L data on the basis of fairness and giving prospective Publicans a sound income. In doing this the pre-existing rents take into account the beer tie and are artificially low when compared to open market rents for similar non-tied pubs.
- The proposal to transfer income from the Pub Companies to tenants is likely to have a dramatic effect on the level of capital investment activity undertaken. It is improbable this would be replaced by the same level of capital investment being undertaken by tenants with potential consequences for jobs in the Pub Companies themselves and the wider construction related supply chain. I would also highlight that capital investment schemes are often used to assist new tenants coming into the business or to help grow existing businesses in partnership. I am equally concerned that if the level of capital investment was constrained then we would see a deterioration in pub condition year on year further fuelling the demise of the British pub industry.
- The low cost of entry to running a pub business and the associated business support has not been adequately acknowledged. This is especially the case when compared to the cost of entry for taking on a comparable high street franchise operation. The opportunity this gives to aspiring entrepreneurs and start-up businesses is unique in the retail and leisure sectors.
- I believe that in the case of Enterprise Inns the voluntary code of conduct is working. I know this because in my day to day employment I see myself and my colleagues placing a very

high level of importance on this, we live and breathe the principals of the code and there are robust mechanisms in place to make sure it is adhered to.

- There are many tenants who support the current model and who take the step to expand their businesses by taking on more than one pub.
- The inference that Pub Companies artificially inflate the turnovers of comparative businesses when undertaking rent reviews is not something that I see. The problem in some cases is that tenants are often unwilling disclose their accounts which would make the rent calculation much more transparent and fairer. When tenants do this and an issue is spotted it is not uncommon for additional business support to be offered. Furthermore I do not support the view that high rent increases are common place, if this does happen it is indicative of an earlier assessment being too cautious and that a fair and equitable balancing adjustment is needed .
- The level of business support provided by Regional Managers is not fully recognised. If the tie was removed then I am of the view that we would see many more business failures than is currently the case. In essence the need to have Regional Manager to help grow sales in partnership with tenants would cease. Also many jobs in sales centres and the wider drinks supply chain would be affected.
- In terms of assisting tenants in running their businesses the effect of cut price supermarket alcohol sales is a major factor. This is where I believe more focus needs to be placed by the government. This often fuels irresponsible drinking habits that can become ingrained, 'pre-loading' by the young and vulnerable together with consequential issues for policing public disorder in our town centres.
- One of the major concerns I have is that the measures outlined could inadvertently lead to the collapse of the British pub industry altogether. To explain, the measures outlined could potentially lead to one of the major Pub Company's going into administration. If this were to happen the re-sale value of Pub freeholds would collapse and there is unlikely to be the capital in the market to buy these assets, even at suppressed values. What could then happen is that the loan to value ratios of other Pub Companies would be adversely affected and we could see domino effect with even more Pubs being placed on the market. If this were to occur the situation would be catastrophic and be very difficult to reverse.
- With regards to flow monitoring equipment that helps to police the tie I do not recognise the problems highlighted, moreover tenants that abide by the terms of their tie have little to fear. To remove this would send out the wrong message and could lead to a higher level of disputes between tenants and Pub Companies. I truly believe that this measure acts in the interests of both parties and I see no sound rationale for it to be banned.
- I see that the code is proposing a mandatory provision for a guest beer. As this is written this could be a session larger i.e. Fosters, Carling, etc. being one of the main sales products for a Pub business. In many of the agreements that Pub Companies have the guest beer is specified as being a cask ale product. For the tie model to remain intact 'as is' I would recommend that this be left untouched.

In summary I would strongly recommend that you consider the above points and conclude that mandatory regulation is not the way forward for leased and tenanted businesses in the UK. If there is compelling evidence of Pub Operating Companies not adhering to their own voluntary codes then this needs to be addressed on an individual basis and put into a much wider context of the good work that they do, the number of people they employee and the significant contribution they make to the wider economy.

Yours Sincerely