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Pub Companies and Tenants: Response to Government Consultation

LICENSEES' LIVING WAGES AND COSTS TO GOVERNMENT

This is the formal submission to the Government consultation by and on behalf of the Social Liberal Forum.

This submission addresses the issue of the cost and benefits of reform, and sets out that there is a significant benefit to the full reform as proposed in the Government consultation – but only if the principle is enshrined in legislation that a tied tenant must not be worse off than one free of tie; and that a fair market rent option is made available (for otherwise there shall only be continued disputes that would provide benefit not to publicans, business or consumers, but litigation lawyers). We strongly support the assessment of the Government that the self-regulation model has not worked as the industry has demonstrated itself incapable of self-regulation. Our views are in support of the reforms called for by the Fair Deal for your Local coalition of campaign groups supported by (among others) CAMRA, organisations representing small business and those representing licensees.

It sets out the case that the most significant benefit from reform will come from redressing the unduly low incomes received by publicans under the tie, and that the benefit from an increase in incomes that are mostly so low as to require support via the tax credit system, and therefore a Government subsidy to wages that are disproportionately low because of the failings of the current tied system. In short, taxpayers are being asked to subsidise the unfair practices of the pubcos unless thorough reform is undertaken; and in this case 'thorough' includes both the 'not worse off' principle and the fair market rent option.

It is also the case that the economic growth in the overwhelmingly British cask and craft beer and cider trade, with a doubling in the number of UK breweries in the last 10 years, risks stalling unless the current barriers to market access through the tie are lifted and entrepreneurship further promoted.

The Social Liberal Forum supports progressive measures that will bring tangible benefits to reducing income and wealth inequality. The full reform as the Government suggests would certainly do that (a halfway house would likely be of minimal if any benefit); and the benefits to the over 20,000 tied trade households not to mention a staff estimated to be up to 200,000 would be significant indeed.

http://socialliberal.net/join-us

Headlines

We believe it is vital the full reform is supported, including fully enshrining the principle that no tied tenant shall be worse off that one free of tie, and the fair market rent option

Reform is particularly important to address sectoral employment issues of low wages and long hours, which comes at a cost to the public purse and affects the livelihoods of up to 250,000 employees within the sector.

What does SLF do..?

- Works to help the Party develop – as a priority – a distinctive, radical and progressive set of policies and manifesto for the next election
- Rejects any electoral pacts with any party and any pre-election preference for future working with any other party
- Seeks to help create and communicate a distinctive Liberal Democrat position on Government policies and their implementation
- Opposes the adoption of any non-progressive or illiberal policies by the Coalition
- Campaigns to maintain the internal democracy, transparency and vitality of the Liberal Democrats as an independent political party

The case for reform

Some 3.3 million UK citizens in receipt of tax credits as of 2011, at a cost to the public purse of £30.4 billion. With some half a million employees (full- and part-time in the pub trade), of whom around half are in the tied trade, the evidence set out through the June 2013 publication of CAMRA/CGA Strategy research that some 57% of licensees earn less than £10,000 per annum, with 80% earning under £15,000, compares to figures of only 25% and 35% respectively in the free of tie trade, and demonstrates a marked increase in low wages compared to four years ago. (In 2009, a CGA survey commissioned by the Business Select Committee revealed that 67% of pubco tied pub licensees earned less than £15,000 a year.)

Most pubco tenants pay zero tax and only class 2 NI for being self employed which is a couple of pounds a week. (Therefore, revenues from income tax are also disproportionately affected). We have been shown, confidentially, examples of tax credit figures from some of the tied licensees affected.

The chart on p.41 here in the Resolution Foundation publication 'Beyond the Bottom Line'
http://www.resolutionfoundation.org/media/media/downloads/Beyond_the_Bottom_Line_-_FINAL.pdf
shows the distribution of tax credit spending by sector. The Accommodation and Food Services sector, including the pub sector accounts for 3.8% of all tax credit spending. That amounts to around £1.15bn a year. (Obviously only a small proportion of that will be pubco employees... but it does show that lifting pay in this sector would relieve pressure on welfare spending. The calculation by the Pubs Advisory Service – see below – estimates tax credit spending for pubco employees at £101.5million per year)

Savings would accrue from reductions in tax credit payments but also from increases in tax and National Insurance yield (due to the effects of Class 2 NI it is difficult to assign exact figures here).

Evidence by those studying the effects of 'living wage' policy on tax credits and yield to the Exchequer through tax and NI shows that the effective marginal tax rate for anyone on tax credits is 73% (20% income tax + 12% NICs + 41% tax credit withdrawal). In that case, earning another £4,000 – the Government's own figure of the transfer of income from pubco to licensees - would mean an extra £2,920 for government (partly in taxes and partly in reduced tax credit spending). This differentially affects some 45% of the over 25,000 licensees in the sector, according to the CAMRA/CGA figures (the differential being that between the tied and free of tie sector).

Thus at the most conservative estimate, there would be a gain to the public purse of some £33 million through the effects of reform on tax credit spending and tax/benefit yield; even without taking into account the benefits of increased income from greater entrepreneurship and the freeing of licensees to let their businesses grow in the knowledge they will reap the benefit.

Taking the assumption above on the marginal rate, 73% of the sum calculated by the Government as being transferred is a little over £33.5m.

It has been argued by some that the Government's figure of the transfer of income has been estimated far too low. If this were true, the real benefit to the public purse might be considerably more – a figure of some £100 million, potentially, if the transfer of income were more like £10,000 per licensee. The figure could be more.

Alternative calculation

An alternative methodology for calculating the additional revenue to the Government under full tie reform:

Based on the CAMRA/CGA figures that 57% of pubco licensees are earning less than £10,000 per annum. There are a little over 25,000 pubco licensees 57% of which = 14,250 licensees (or licensee households).

An increase in income to this group would bring them over the allowance for basic rate income tax and National Insurance, generating additional Treasury revenues. ADDITIONALLY: part-time staff numbering around 200,000, based on BBPA figures (2012) that one pub employs on average 10.5 staff, would provide income that has not been counted in this calculation.

Some 80% of pubco licensees are earning less than £15,000 per annum.

Taking either end of that wage bracket, a "bottom end" couple running a pub with one school age kid would be on £0 drawings and a "top end" couple with one school age kid on £14k drawings. Calculations by the Pub Advisory Service estimate that:

- Bottom – £89.93 WTC + £62.09 CTC x 52 weeks = £7905
- Top – £29.93 WTC + £62.09 CTC x 52 weeks = £4785.

Multiply by 2/3 of tied pubs (16,000) - say 8000 top end pubs and 8000 bottom end to average it out: taxpayer support via tax credit alone in respect of tied publicans on low incomes stands at up to £101,520,200 per year.......

And that is without calculating the cost of write offs on unpaid VAT & NDR yet.

Social Liberal Forum

Gareth Epps and Naomi Smith (Co-Chairs)

Prateek Buch (Director)

Contact us:
SLF, 97 St John's Wood Terrace, LONDON NW8 6PP
www.socialliberal.net
admin@socialliberal.net.