

GREENE KING ANNUAL COMPLIANCE REPORT

PUBS CODE ETC. REGULATIONS 2016 (ENGLAND AND WALES)

Reporting period 21 July 2016 to 31 March 2018



GREENE KING
PUB PARTNERS



Section 1: Audit Committee Statement on Compliance

Greene King Pub Partners is the trading name of the following companies, which are subsidiaries of Greene King plc:

Greene King Brewing and Retailing Limited
Greene King Retailing Limited
Spirit Pub Company (Leased) Limited

(the "Companies").

Together the Companies are defined as a "pub-owning business" in accordance with Part 4 of the Small Business Employment and Enterprise Act 2015 (the "SBEE Act"). As such the Companies are required to submit an Annual Compliance Report to the Adjudicator under Regulation 43 of the Pubs Code etc. Regulations 2016 (the "Pubs Code").

The Annual Compliance Report, as defined by the Pubs Code, is due for submission to the Pubs Code Adjudicator (PCA) within the period of four months beginning with the day after the end of the first subsequent full financial year, as defined by the SBEE Act, which will be by 31 July 2018.

This Annual Compliance Report covers the period of 21 July 2016 to 31 March 2018 and is approved by the by the Chair of the Greene King plc Audit & Risk Committee prior to its submission to the Pubs Code Adjudicator. It is confirmed that Regulations 43(5), (7), (8) & (9) have been complied with.

Greene King Code Compliance Officer:

Julie Jolly

Chair of the Greene King plc Audit & Risk Committee:

Rob Rowley
Contactable via the Company Secretary

Section 2: Estate Summary

<i>As of 31 March 2018, total numbers of:</i>	
Pubs Code Agreements	
• Number of tied pubs in estate	948
• Agreements with security of tenure under the Landlord & Tenant Act 1954	427
• Agreements contracted out of the Landlord & Tenant Act 1954	401
• Short Agreements under Regulation 14	120 ¹
• Pub Franchise Agreements under Regulation 55	0
Qualifying Investments under Regulation 56	
• Number of Qualifying Investments under Regulation 56	19
¹ Of the 120 short agreements, 17 of these agreements were Tenancies at Will (TAW) and 103 were one year agreements.	

Section 3: Code Compliance

Part I: Investigations
N/A

Part II: Enforcement
N/A

Part III: Guidance & Advice
<p>Greene King has sought to ensure that best practice information provided by the PCA has been integrated into the processes and procedures of day to day business, which is reflected in the Operating Procedures Handbook issued to Greene King Business Development Managers. And it has been communicated through relevant training and briefing sessions at Regional and Operational Meetings with all appropriate Greene King personnel.</p> <p>In addition, the PCA's factsheets and flow-charts are regularly referred to in tied pub tenant correspondence, such as enclosing the PCA leaflet with tied rent assessments and Landlord and Tenant Act renewals, as well as supplying a copy of the Pubs Code Market Rent Only flowchart.</p> <p>The Advice Note that the PCA published on 2 March 2018 is currently the subject of a legal challenge before the Administrative Court by both Greene King and Ei Group and pending the outcome of the case, certain aspects of the Advice Note concerning the interpretation placed upon the legislation have not been adopted.</p>

Part IV: Unfair Business Practices
N/A

Section 4: Tied Agreements

Part I: Code Tied Agreements

During the reporting period, numbers of:

New Agreements	696
<p>Greene King has a well-established recruitment process which supports the Pubs Code pre-entry requirements and is managed by a tenanted and leased recruitment team. A process management system is used, Connect, which tracks the process, records key milestones and provides an audit trail of actions taken.</p> <p>Where an applicant has shown interest in a specific pub, the Schedule 1 information is sent to them by the recruitment team via email, with a covering letter setting out advice to inspect the premises, complete pre-entry training, obtain independent professional advice and prepare a sustainable business plan. In addition it also includes other Greene King resources such as the Greene King Running a Pub Information Guide, Guide to Charges etc.</p> <p>Greene King recognises the British Institute of Inn-keeping Pre-Entry Awareness Training (PEAT) as appropriate pre-entry training, although Greene King also conducts its own induction training. Where a tied pub tenant is changing agreement, the completion of PEAT is strongly recommended as a refresher due to the new statutory regime. Where an applicant or tenant meets one of the pre-entry training conditions, an exemption agreement is produced as part of the agreement documentation pack.</p> <p>The applicant is required to submit their sustainable business plan, along with evidence of independent professional advice, to the recruitment team before any further meetings are held.</p>	
Assignments	20
Forfeitures	30
Legal Surrenders	126 ²
<p>² This includes all surrender notices received from Greene King's tied pub tenants who have decided to leave the pub.</p>	
Abandonments	Not available
<p>Greene King has not previously recorded abandonments and so new reporting requirements have been established to ensure this is now captured for future reporting purposes.</p>	
Code Rent Reviews	172
<p>The number of Code Rent Reviews includes those conducted under the terms of the agreement and those which were accepted following a request made by the tenant (158 plus 14). Greene King has not received any rent proposal requests under regulation 15.</p> <p>Greene King uses email as the primary method of sending rent assessment proposals. Emails are marked with the comment, 'This is an important email please read.' All statutory information as specified in Schedule 2 is included in this email, along with the PCA's own leaflet. In addition a hard copy of the rent assessment proposal is sent via Royal Mail Recorded Delivery and marked with 'Important Documents Enclosed'. After these have been sent, follow-up is made with the tied pub tenants to arrange a meeting to discuss the rent assessment proposal.</p>	

Renewals	57
<p>The provision of renewal documentation is sent via Greene King's solicitors, TLT LLP. On confirmation that this has been sent, Greene King emails the required statutory information to the tenant.</p> <p>A dilapidations inspection is undertaken by externally appointed building surveyors. This is arranged shortly after issue of an initial letter reminding the tenant about the expiry of their agreement. The surveyor will also gather sufficient information to prepare a Schedule of Condition (SOC) required under the Regulations. The letter advises them about this. The Schedule of Dilapidations (SOD) and Schedule of Condition (SOC) are issued with the Schedule 1 information. This is issued by email at the same time as Greene King's solicitors issue a Section 25 notice. The dilapidations then form part of the negotiation for the agreement renewal.</p> <p>Works are prioritised and generally, where they are not of an urgent or statutory nature, agreement is reached for the tenant to take the liability forward to their new tied agreement and complete the work within a pre-agreed timetable. This timetable will depend on the nature of the work required and time of year.</p> <p>As part of the renewal process, Greene King requires that the tenant provides it with all valid statutory certification, which is their responsibility under the terms of their agreement. This is checked by Greene King's externally instructed statutory compliance consultants. It is required that any identified remedial works are completed within a pre-agreed timetable.</p> <p>Where a tenant decides not to renew their agreement and leave their pub, Greene King will give them the option to either complete the works listed in the SOD or negotiate a financial settlement. Most dilapidations claims are settled amicably. In complex cases, externally appointed surveyors who prepared the SOD will be instructed to act on Greene King's behalf. This is unusual within the Greene King estate.</p> <p>As with all aspects of agreement renewal negotiations Greene King lessees are strongly advised to take independent professional advice from a suitably qualified advisor.</p>	
Investment Exceptions agreed under Regulation 56	19

Part II: Code Rent Assessments <i>During the reporting period, numbers of:</i>	
Total Rent Assessments conducted under terms of the tenancy	158
Total number of Rent Assessment Proposals requested by tenant	29
<ul style="list-style-type: none"> By reason of no rent review concluded in last 5 years 	22
<ul style="list-style-type: none"> By reason of a significant increase in price 	0
<ul style="list-style-type: none"> By reason of a trigger event 	0
<ul style="list-style-type: none"> No specific reason 	7
<p>Greene King uses a process management system, Connect, to support the management of business critical processes, the rent review process being one of these.</p> <p>The Greene King's Estate Managers are responsible for managing the rent review deadlines and are required to complete a rent review record in Connect, which records the date of inspection, sending of the rent assessment proposal and conclusion of the rent review.</p> <p>Monthly compliance reporting is produced to monitor compliance with the statutory deadlines.</p>	

Total number of requests for Rent Assessment Proposals rejected	15
The main reason for rejection was around timing where the required time had not elapsed in order to accept the request. Another included where rent assessments were requested ahead of the transitional provisions set out in Part 16 of the Pubs Code. Greene King sent rent assessment proposals in line with timelines laid down in regulation 66.	

Part III: Renewals under the Landlord and Tenant Act 1954	
<i>During the reporting period, numbers of:</i>	
Section 25 Notices issued opposing a new tenancy on the grounds of an intention to take the pub back into occupation	0
Section 26 Notices opposed on the grounds of an intention to take the pub back into occupation	0
LTA court proceedings related to an intention to take the pub back into occupation	0
• Of which, the number of objections to a new tenancy that were upheld	0
• Of which, the number of objections to a new tenancy that were dismissed	0

Section 5: MRO

Part I: MRO Notices

During the reporting period, numbers of:

Total number of MRO Notices received and acknowledged	105
<ul style="list-style-type: none"> Following receipt by a tenant of a Rent Assessment Proposal 	90
<ul style="list-style-type: none"> In relation to the renewal of a tenancy 	10
<ul style="list-style-type: none"> Requested in response to a significant increase in price 	0
<ul style="list-style-type: none"> Requested in response to a trigger event 	0
<ul style="list-style-type: none"> No specific reason 	5
<p>On receipt of an MRO Notice, and before accepting or rejecting an MRO notice, Greene King undertakes a verification process to check the detail of the notice and the MRO event that is being relied upon with its own records. To do this Greene King uses its process management system, Connect. This is overseen by Greene King's Code Compliance Officer ("CCO").</p>	
Total number of MRO Notices accepted	77
Total number of MRO Notices rejected	28
<ul style="list-style-type: none"> Following receipt by a tenant of a Rent Assessment Proposal 	16
<ul style="list-style-type: none"> In relation to the renewal of a tenancy 	5
<ul style="list-style-type: none"> Requested in response to a significant increase in price 	0
<ul style="list-style-type: none"> Requested in response to a Trigger event 	0
<ul style="list-style-type: none"> No specific MRO event detailed 	7
<p>MRO Notices were rejected on the basis that an MRO trigger event had not occurred, the notice was outside the statutory window or it failed to contain the relevant information required by the legislation.</p> <p>Where an MRO Notice did not contain the relevant information, Greene King wrote to those tenants advising them of such straight away to inform them what was missing and providing those tenants with enough time to re-submit a valid MRO Notice.</p>	
Total number Full Responses to MRO Notices issued	75
<p>Following the service of a valid MRO Notice, Greene King's Estates Managers are responsible for managing the MRO procedure and key deadlines. They are supported by the CCO who has regular contact with the Estates Managers to ensure deadlines are being met. Monthly compliance reporting is produced to monitor compliance with the statutory deadlines.</p>	

Part II: MRO Negotiations*During the reporting period, numbers of:*

MRO Negotiations undertaken with tenants	73
Of the 75 Full Responses issued, Greene King has undertaken 73 MRO negotiations. Of the two outstanding negotiations, one tenant has made a referral to the PCA and the other had only just received a Full Response from Greene King, which was issued at the end of March 2018.	
Times that each of the regularly challenged terms above has ultimately appeared in a completed MRO agreement (please list and enumerate)	MRO agreement terms remained as issued
MRO tenancies agreed	4
• By a New Agreement	4
• By a Deed of Variation	0
Total number of tied settlements following MRO negotiations	66
• Of which number of new tied tenancies agreed	12 ³
• Of which number of tied rent reviews concluded	31 ⁴
• Of which number of tied tenant departures	11 ⁵
³ In addition to the 12 new tied tenancies agreed, a further 1 agreement is pending legal completion. ⁴ In addition to the 31 tied rent reviews concluded, a further 5 rent reviews concluded in May 2018, with 1 pending legal completion. ⁵ In addition to the 11 tied tenant departures, a further 3 tenant departures occurred in April/ May 2018, and a further 2 departures have been agreed, although the tenants had not yet departed.	

Part III: MRO Independent Assessment*During the reporting period, numbers of:*

Total Independent Assessor appointments	19
• Of which number that were appointed jointly in agreement with the tenant	16
• Of which number that were appointed by the PCA	3
Of those Independent Assessors jointly appointed: <ul style="list-style-type: none"> Eddisons Taylors – 5 appointments Andrew Crease & Co – 4 appointments The Cobbs Consultancy – 3 appointments Barry Crux & Company – 2 appointments Nicholson & Co – 1 appointment John Houston Consulting – 1 appointment 	

<p>Of those Independent Assessors appointed by the PCA:</p> <ul style="list-style-type: none"> • The Cobbs Consultancy – 1 appointment • Andrew Crease & Co – 1 appointment • Westlake & Co – 1 appointment 	
Independent Assessments challenged	2
Any second challenges to Independent Assessments	1
<p>Of the two challenges made, one was made by a tied tenant and the second was made by Greene King.</p> <p>The second challenge made to an Independent Assessment was undertaken by the tied pub tenant following the initial challenge.</p>	

Section 6: Other Code Reporting

Part I: Code Part 10 Provisions

For the reporting period, narrative reports on compliance with:

Regulation 46 – Insurance provisions

Greene King provides insurance to cover buildings, its own fixtures and fittings, its loss of rent, its loss of profit and any other loss of income, and is part of a group block policy covering all Greene King assets and does not provide pub-by-pub premiums.

Greene King confirms that the insurance renewal process is completed and the continuation of the group block policy will remain. It has been agreed by Greene King's Board that we will continue with the block policy rather than individual policies to prevent price increases to the tenanted estate.

Regulation 47 – Gaming Machines

No new tied agreements have been granted that require a tied pub tenant to purchase or rent gaming machines from Greene King or a nominated supplier.

Regulation 48 – Requests for blank profit and loss templates

Greene King provides blank profit and loss templates as part of the Schedule 1 information supplied. These templates are also available online under the business planning section of www.greenekingpubs.co.uk.

Regulation 49 – Sale of freehold or long leasehold (including numbers)

Greene King has complied with the requirements of Regulation 49. Any affected tied tenants were provided with the required information.

Regulation 50 – No tenant detriment from exercising Code rights (including action in response to any finding of detriment)

Greene King has not acted in any way to subject a tied tenant to any detriment on the grounds they have exercised, or attempted to exercise, any right under the Regulations.

There is one arbitration before the PCA where a tied tenant is alleging that Greene King has subjected the tied tenant to a detriment in relation to the terms offered on MRO and the requirement for a deed of variation. Greene King has defended this both in terms of jurisdiction and on merits and an award from the Deputy PCA is awaited.

Regulation 51 – Flow Monitoring Devices

There were no Greene King tied tenants subject to any detriment, or had any liabilities imposed on them, as a result of any reading taken from a flow monitoring device, without additional evidence in connection with the purchase and stock of alcohol at the tied pub.

Part II: Extended Protection

During the reporting period, numbers of:

Tied pubs where title has been transferred to the ownership of a person who is not a landlord of 500 or more tied pubs
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Section 7: Reporting on Tenant Complaints, Code Breaches and Arbitration

Part I: Breaches of the Code identified by tied pub tenants

Greene King received three Pubs Code-related complaints. Two were in reference to Regulation 41(1)(c), and one was in reference to Regulation 41(1)(c) and Regulation 50.

Part II: Steps taken in relation to complaints

Greene King has an established complaints procedure documented in its Running a Pub Information Guide (section 10), which was followed in respect of the aforementioned complaints in Part I.

One complaint was concluded following the granting of an MRO agreement and without the need for escalation.

One complaint followed the full complaint procedure and was concluded following a meeting with the Managing Director.

One complaint followed the complaint procedure, with mediation utilised to support a mutually agreeable resolution. This complaint was referred to the PCA, and the DPCA was supportive of the mediation route. Following conclusion of the complaint the referral was withdrawn.

Greene King did not recognise any breaches of the Code, and agreeable resolutions were reached between parties.

Part III: Self-notification of breaches

None

Part IV: Referrals for arbitration

During the reporting period, numbers of:

Total cases referred to the PCA	36
Total MRO cases referred to the PCA	31
• Referrals of MRO terms on grounds that they are non MRO-compliant	28
• Of which number where breaches of the Code were found by the PCA	0
Referrals of void or unenforceable terms under Regulation 57(2)	0
Referrals of all other non-MRO Code matters	5

Part V: Other complaints made by tenants

Greene King handled nine complaints not considered related to the Pubs Code. These were handled in accordance with the established complaint procedure documented in the Greene King Running a Pub Information Guide (section 10).

Section 8: Corporate Compliance Structures

Part I: Compliance Officer

Greene King confirms that it has appointed and empowered a Code Compliance Officer as required under Regulation 42, who is reasonably available to tied pub tenants and their advisors. The Code Compliance Officer maintains written records of training through the Greene King leased and tenanted training and development team.

Part II: Business Development Managers - Training

Greene King confirms that it has published its commitment to continuous professional development and improvement of its Business Development Managers (BDMs) through the Running a Pub Information Guide (section 7.1 and 7.2).

Greene King is committed to ensuring all its BDMs who have contact with tenants are properly trained. All BDMs are trained on the Regulations and receive annual refresher training, which has been delivered previously through classroom style work-shops delivered by the Code Compliance Officer and other specialists in their area, such as Estates Managers and Property Managers.

The training and development of BDMs is tailored to meet their specific needs and ranges from buddying with experienced BDMs to formal training courses delivered through Greene King's own Learning and Development Programme, such as Management to Leadership and Business Influencing. This is further supplemented by workshops held in Regional and Operational meetings on different topics, where required.

BDMs are also supported with academic qualifications, such as the Postgraduate Diploma in Hospitality Business Management (also known as multi-unit leadership), operated by Birmingham City University Business School. Additional support may also be provided if any BDM wishes to go on and study for a Master's Degree.

Greene King confirms that all BDMs in post at the commencement of The Pubs Code etc Regulations 2016 received a copy of them. New BDMs receive a copy of the Pubs Code as part of their induction training.

As previously mentioned, Greene King provides annual Pubs Code training. This is further supplemented by the Code Compliance Officer attending BDM Regional and Operational meetings to update on the latest information relating to the Pubs Code and enhancements to Greene King's own processes and procedures to strengthen compliance.

The Code Compliance Officer has also produced various BDM Bulletins offering advice and reminders on processes and procedures, which have been circulated on email. The Regulations and other Greene King resources are made available to the BDM on Greene King's own internal intranet portal.

Part III: Business Development Managers - Conduct	
Greene King is committed to ensuring its BDMs act in a manner that is consistent with the core Pubs Code principle of fair and lawful dealing in relation to its tied pub tenants. To support this Greene King expects its BDMs to operate under a set of non-negotiables and any misconduct is subject to Greene King's disciplinary policy.	
Greene King BDMs record meeting notes in what is known as the Pub Communications App, an application linked to the process management system, Connect. The BDM has the ability to input notes, which are then emailed through the system to the tied pub tenant in a pre-formatted form, which includes a standard message about responding within 7 days if they disagree with any aspect of the meeting notes.	
For the reporting period, the number of challenges by tenants about the non-provision or content of a BDM record.	11
The 11 instances recorded against meeting note challenges were in relation to corrections or missing information on the meeting notes. The BDMs responded on email to agree and confirm corrections. On a couple of occasions, additional notes were appended to the original meeting notes and re-sent through the Pubs Communications App.	

Section 9: Any other comments

Part I: Any other comments - compliance

Greene King undertakes monthly compliance reporting which is shared with the tenanted and leased Executive Team. In addition, Greene King also performs its own annual internal audit conducted by the Head Office Auditor, which is shared with the Greene King plc Audit & Risk Committee.

