

RESPONSE OF ADMIRAL TAVERNS TO THE 2019 STATUTORY REVIEW OF THE PUBS CODE AND PUBS CODE ADJUDICATOR

INTRODUCTION

Admiral Taverns ('Admiral') is an award-winning community pub operator and one of the six pub owning businesses ('POB') regulated by the Pubs Code ('the Code'). At Admiral we only operate leased and tenanted pubs with the vast majority of our c.800 strong pub estate operating under tenancy agreements. As such the Code is central to our day to day dealings with our licensees and we believe we are well placed to comment on the impact and performance of the Code, highlight some challenges faced by the Pubs Code Adjudicator ("PCA") and identify further opportunities for the improvement of the code .

Before giving our specific responses to the questions on which the committee is inviting evidence and submissions, we would like to give some insight in to our own business model and approach. At Admiral we consider ourselves to be champions of the supported tied model. Our business has been built on developing strong working partnerships with our licensees. The quality of these relationships is a critical measure of our business performance and success. Through the development of these mutually trusting relationships, we are able to work with our licensees to develop more successful, more profitable pubs which are sustainable for the long term. This shared objective is therefore at the heart of our business model and has been for some time.

We monitor and track our relationships and the value we provide our licensees through our participation in the independent Tenant Track survey which has historically been produced by the MCA Insight and more recently by KAM Media under the new title of Licensee Index. We are proud of the fact that our performance continually exceeds those of all other national pub companies and also ranks ahead of many smaller pub companies and regional family brewers who are not caught by the Pubs Code. Furthermore in 2013, 2016 and again in 2019 we were awarded the much-coveted award of Leased and Tenanted Pub Company of The Year with the positive views of licensees (which were independently audited by the panel) being highly influential in the judging process. Over the last 7 years (on average) 78% of our licensees would actively advocate Admiral Taverns as a business partner.

The business-critical nature of our licensee partnerships means that from the outset we have been committed to working within the spirit of the new legislation. It is essential we make the Code work for both our licensees and ourselves and to that end have worked tirelessly since its inception with the Pubs Code Adjudicator ('PCA'), our fellow POBs and tenant bodies to understand and implement the Code requirements into our business model. We interpret the fair and lawful dealing principle as doing the right thing with the clear objective of making our licensee's businesses profitable and sustainable in the long term.

Our own commitment to 'doing the right thing' pre-dates the existence of the Code and existed prior to the introduction of voluntary Industry Framework Code ("IFC"). This is evidenced by the fact that we were never called before the Pub Independent Conciliation and Arbitration Service ('PICA-Service') (which dealt with licensee complaints under the voluntary code). Compliance to the Code has therefore been a natural extension to that approach. To date, we have yet to be referred to the Adjudicator under the Pubs Code and we believe this demonstrates our long-standing commitment to

fair and lawful dealing and validates the excellent relationship we enjoy with the vast majority of our licensees.

Part A: The Pubs Code

1. How well do you think the Pubs Code has operated between 21 July 2016 and 31 March 2019?

Effective Operation Despite A Difficult Start

Despite a difficult implementation period for both the Adjudicator and the industry, we believe that the Pubs Code is now operating well but there remain opportunities for improvement.

The new legislation was rushed in without any transition period (one day from final approval to implementation on 21st July 2016) which meant that the best laid plans of all parties were tested.

In our view, the PCA itself faced a number of operational challenges. It was formed little more than three months before implementation of the Code and thus the Adjudicator had limited time to set up offices and employ staff, let alone design its processes, assess staffing requirements, meet key stakeholders and consider ways of information dissemination.

Moreover, it seemed apparent that all this had to be delivered against a negative publicity headwind which continually questioned the suitability of Mr Newby to the role. These open challenges to his authority were undoubtedly an unhelpful distraction and made the operational tasks faced by the PCA team that much harder.

Aside from these problems there were also specific challenges arising from the Code legislation:

Regulation 19(2a): The effect of this regulation meant that licensees were (quite reasonably) encouraged to stall their rent reviews scheduled for completion pre-July 2016. This was in order to enable a Market Rent Only (“MRO”) trigger once the Code was in force. This added to the initial congestion of MRO applications, delayed decision making and caused significant frustration for all parties.

Regulation 29 (4): The effect of this regulation, which we believe was a result of an error in the drafting process, meant that the parties on receipt of a full MRO offer had only 14 days to negotiate the lease terms. This is unrealistic, despite the best efforts from all parties. Licensees (again quite reasonably) elected to refer to the PCA to protect their position which again added to the initial backlog of applications. However, this issue has now been resolved by the PCA with the creation of an ‘agreed stay’ mechanism. At Admiral we adopted this approach from the outset of the Code to allow any tenants who did elect for MRO negotiations the time to do so freely.

Aside from these technical issues, the initial inability of the PCA (for whatever reason) to promptly deliver and report on arbitration decisions meant that there was a lack of clarity around the decision-making process, which in turn led to repeat referrals on similar issues. This issue should now be diminishing with increasing awareness and understanding of the legislation.

In our view these teething issues were to be expected given the lack of a transition period. This was new legislation and new legislation takes time to be fully understood and successfully implemented. By way of a comparison the Landlord and Tenant Acts of the 20th century, which is now embedded law, took many years to become successfully established.

Despite this initial and inevitable difficult period, we believe the Code is now working well and the PCA and the wider industry (including the pub owning businesses) have taken great strides forward in working together more effectively.

- Analysis of the number of enquiries received by the PCA since 2016 show that the number of enquiries per quarter has reduced consistently to approximately 25 per quarter in the most recent figures released.
- Indeed, in the first 21 months of the Pubs Code from 21 July 2016 to 31 March 2018 the PCA reported 692 enquires. However, in the most recent 12 months reported from 1st April 2018 to 31st March 2019 just 139 enquiries were raised with the PCA, highlighting the reduction in issues and the increase in negotiated and mutually agreed settlements.
- Similarly, in the first 21 months of the Code there were 216 referrals as opposed to just 94 in the 12 months to 31st March 2019.

NB. The number of enquiries does not necessarily relate to complaints against Pub Owning businesses and could very simply be a question on process or where to find a form.

Increased licensee understanding of the wider elements of the Code

In our view there has been a disproportionate focus on MRO as a measure of success of the Pubs Code by tenant groups and the PCA which have been amplified by the trade press and social media.

However, there are many other aspects to the Code and the vast majority of these have worked well. This is evidenced by the very small number of referrals on non-MRO issues. The Code has given an important statutory edge to the provisions of the IFC, referred to previously, and this should not be overlooked. For example, the simple requirement that minutes of meetings are quickly provided and agreed, has removed much consternation where previously there may have been confusion, leading to unnecessary dispute. The requirement for more detailed information to be provided in advance of new lettings and the requirement that professional advice be taken to ensure that legal obligations are fully understood are another example of improved diligence.

Evidence of a good understanding of the principles of the Code across our own estate

In order to sense check the level of understanding of all elements of the Code within our own business and to ensure that any 'Code related' queries which our licensees may wish to raise are identified, we tasked our Operational team to engage and survey all of our licensees.

We asked each tenant:

'Given we are now more than 2 years into the life of the Pubs Code and the existence of the Pubs Code Adjudicator – are there any questions you would like to ask or areas that need clarification for you.'

As part of this process we then set out all of the wider benefits and protections that the Code had given to the tied tenant specifically including the MRO element. The resounding response was 'we are comfortable' and our tenants have very few concerns.

Independent endorsement

This is supported by the most recent independent Licensee Index conducted by KAM Media, which identified that Admiral tenants rated their Pubs Code awareness levels at 7.1 out of 10 and the signposting we provide on Pub Code information was ranked at 7.8 out of 10.

The same index evidenced that Admiral licensees rated the Admiral tenancy agreement at 6.9 out of 10 and rated the company (as a whole) at 7.7 out of 10. These are strong recommendations from our business partners and provide compelling evidence of a positive relationship.

Most businesses would welcome this level of advocacy from their business partners and these are not uncommon within our peers. This independently collated evidence paints a very different picture to that portrayed by the anti-pub company groups and the tone of the social media posts against the supported tied-model.

2. To what extent do you think the Pubs Code is consistent with the principle of Fair and Lawful dealing by POBs in relation to their tied tenants.

It is our view that the Code is entirely consistent with this principle and has reinforced the work started through the IFC to provide even greater clarity and transparency in the relationship between pub owning business and tied tenants. As stated above, given the initial problems it has perhaps taken too long to remove obstacles in the MRO aspect of the legislation.

The Code ensures that tenants have the necessary information to take professional advice and make informed decisions on entering a substantive agreement or at rent review, this is very much a continuation of the voluntary code. However, under the Code, additional detail and information is provided. For example, this includes the provision of a schedule of condition to provide a detailed and easy to understand breakdown of the condition of the property. This is a further and welcome extension from the voluntary code requirements.

The Code requires that agreed meeting notes of important conversations are provided and agreed in a timely fashion. This simple requirement, which was previously undertaken on a more ad hoc basis across the industry, provides records of commitments and promises from both parties and has helped to remove reasons for dispute.

The MRO option arguably goes beyond fair and lawful dealing and has provided established tenants additional scope for negotiation at the key negotiation points of rent review and renewal as well as additional protection against significant price increases on drink and other tied products and the ability to have the deal re-assessed when unforeseen events trigger a permanent reduction in the turnover of the site. All of these options come with pre-set timescales and processes to be followed and it is important that the progress made in the last 12 months in this area by the PCA is built upon.

Finally, the creation of the PCA and options to refer and arbitrate provides a tenant with an alternative route to resolution where disputes or issues cannot be resolved consensually. These structures are funded by the pub companies at significant cost.

What evidence do you have?

- The number of enquiries and referrals raised with the PCA has reduced markedly. (See response to Question 1 above)
- Our internal discussions with our tied tenants have revealed a level of comfort re the Code. (See response to Question 1 above)
- The 2017/18 Tied Tenant Survey carried out on behalf of the PCA in late 2017/early 2018 highlighted an initial 77% awareness of the Code from the tenants questioned. Further

examination of that data revealed that 73% of the tenants surveyed were very or quite aware of the Code with a further 16% not very aware and 11% not at all aware. We would contend that such levels of awareness little more than 1 year into the Code's existence were a positive endorsement of the work that has been done to promote this by all parties. We will continue to work with the key stakeholders to further improve that awareness and would hope that the 2018/19 survey is trending positively in this area. Awareness of the Code and the rights under it and where to go to gain such information are surely a key building block in this process.

- The Licensee index commissioned by pub owning businesses highlighted that Admiral tenants gave a rating of 7.3/10 when asked 'how likely they would be to recommend their pub owning business to another licensee'. Again this is a strong recommendation for Admiral which has been echoed in similar fashion across the industry.
- Similarly, and as referenced in Question 1, the Licensee Index provides positive affirmation as to the fairness of tenancy agreements and overall rating of the licensee's pub company. (again see Section 1)
- The vast majority of referrals to the PCA have arisen around the MRO process. Whilst this means that there has been work required in this area, it also demonstrates that the rest of the Code has worked well and has been implemented smoothly.

Pleasingly, there has been progress within the MRO process too.

- The PCA's introduction of a voluntary 3-month stay has removed the requirement for a referral after 14 days if the terms of the MRO vehicle could not be agreed. This is an important and helpful change as it allows the parties time to agree terms consensually and avoids the unnecessary clogging up of PCA arbitration time by matters that could be easily agreed by consent. This will reduce future backlogs and allow the PCA to focus where there is genuine need of its attention and intervention.
- The appointment of the DPCA provided additional and much needed resource and support, and assisted in progressing some of the initial backlog which was creating frustration on all sides.
- While the published arbitration decisions are difficult to take real learnings from (as each case turns on its facts), the fact that the POBs promoted and willingly agreed to this does highlight that there is a willingness of all POBs to have these decisions made public to help drive improved clarity and understanding. In time it is hoped that more golden threads are established and made available by the PCA and we will continue to encourage the PCA to embrace this opportunity to further improve clarity and understanding. It is important that **all parties** remain committed to making all arbitration decisions public (albeit suitably redacted). Anything less will lead to allegations of cherry picking of awards and will create problems.

3. To what extent do you think the Pubs Code is consistent with the principle that tied pubs tenants should not be worse off than they would be if they were not subject to any product or service tie.

The MRO process offers a tied lessee or tenant at the trigger event, the option to compare the tied and free of tie offers and assess which level of risk best suits their preferred business. The licensee can thus make a balanced decision weighing up the relevant risks and potential rewards of the two different business models.

However, this is not a simple calculation and is different for each individual licensee. In answering this question, it is important to fully understand the two very different models and thus degrees of risk being adopted by a licensee when choosing between the supportive tied model and the free of tie commercial lease that the MRO model is based upon and designed to replicate.

The MRO process is neither designed to create an agreement which puts a tied lessee in a more advantageous position than a lessee who is negotiating a free of tie lease in the open market (as is quite common) nor should it put the licensee at a disadvantage, it should provide a balance and fair choice. A licensee who enters into a commercial free of tie lease at outset will almost always have higher costs of entry than the tied tenant, they will also be undertaking a fully repairing and insuring lease as opposed to the internal repairing and decoration only tenancy agreements that are most common in the tied model. They will also not benefit from any of the extensive and ever-increasing range of support and benefits offered under the supported tied business model. The tied tenant benefits from all of the SCORFA benefits not available in the free of tie market. These include but are not limited to, BDM support, lower cost of entry to run their own pub business, access to capital investment and support, surveying support and reduced repair liability, flexible credit facilities, reduced delivery costs, licensing and legal support, utility support, business development, retail and marketing support, access to relevant ongoing professional training. Importantly, as a result of the partnership approach, the POB will also offer more flexibility and support to the tenant during the inevitable ups and downs of an economic cycle. In our experience all of the above are taken into account by the tenant when they are weighing up the benefits and the risks and rewards of remaining in the supported tied model or converting to a new commercial arm's length arrangement offered by the MRO agreement.

What evidence do you have to support this?

The evolution of the MRO process has impacted the market in that it has led to the granting of more free of tie leases at outset by some pub owning businesses to create a free of tie division. For example, [Redacted] have created a free of tie division of over 300 leases which has recently been sold. This has led to a greater understanding of the free of tie model and greater comparability that can be used at rent assessment stage. It also creates opportunities for those licensees who want and can afford a free of tie agreement from the outset to do so. An example of this would be the [Redacted].

At Admiral, our conversations with licensees, both when the Pubs Code was implemented and subsequently, have indicated that the vast majority of our tenants do not want the additional fixed cost of the higher MRO rent nor the higher risk profile of the free of tie business model. They place significant value on the support offered to them by their Business Development Manager and the additional support from the wider business.

Only 18% of the Admiral licensees that have submitted a valid MRO notice have gone on to take the free of tie option. Across the wider industry only 11% of licences submitting a valid MRO notice have elected for MRO in some form. (It is accepted that there will be a timing delay here between acceptance of the MRO request and completion of the process).

This evidences that licensees are looking at the two available options (remaining tied or agreeing an MRO agreement) and the majority are electing to remain tied. Often this will involve leveraging the free of tie offer to improve the tied deal through a negotiation on rent or drinks pricing or even an

agreed investment by the pub owning business to improve the pub's offer and facilities and thus the tenant's business.

4. What, if anything, do you think needs to change to make the Pubs Code operate more effectively and/or better support the principles?

New legislation needs time

As referred to in Part A Section 1, the Pubs Code Regulations are new legislation and new legislation always needs time to be fully understood and embedded. As at the date of submission of this response, we will be only three years into the adoption process. In our view, there has quite clearly been a marked and continuing improvement in the approach of almost all relevant parties during that period which has seen real gains made. This needs to be built upon with the right minor amends to the Code but more importantly the continued co-operation of all concerned.

Further publication of arbitration decisions

We believe that through more arbitration decisions being made public and in time the creation of golden threads, greater clarity will be provided as to what should be commonly agreed and accepted. Again, this will take time.

Validation of MRO agreements

More specifically, the validation of each pub owning business' MRO agreement by the PCA would remove a significant area of dispute and remove the allegation that terms which have been ruled to be non-standard are being left in those agreements. While the individualisation of the MRO agreement for minor non-commercial terms can still be negotiated if the lessee wishes to raise the same, the key commercial terms should replicate what is commonly available in the free of tie commercial lease market. The key debate over the PCA's use of the word 'reasonableness' could to a large extent be clarified if we were to arrive at least at a staple document and this would be much welcomed by the Pub Owning Businesses. We understand that the PCA are reluctant to do this as it would need to be reviewed annually, but that would only follow if golden threads had been established to include or remove a certain common term, other than that it could be a three-year review.

To date the PCA has not been willing to engage on the validation of POBs MRO agreements, we do not support the arguments against this and believe that more clarity and pace could be brought into the process through this approach.

Accreditation of professional advisers

It is difficult to specify that an industry adviser should have a professional qualification as there are many people whose knowledge is based on years of experience in the industry and they should not be precluded from giving advice. However, we believe that each adviser acting should have some form of professional indemnity cover to protect the tenant from poor advice. The ability to get that cover will in many ways determine the suitability of the individual.

In terms of our view on changes in the Pubs Code Regulations itself:

Regulation 29 (4) should be extended to allow the parties 28 days for initial negotiations before referral is necessary AND incorporate the ability for the parties to agree an initial stay (up to 3 months) to agree a consensual arrangement. This will assist all parties including the PCA.

Regulation 3(4)d should be amended. It is intended to make sure that POBs (quite rightly) restrict their annual price increases to 3% plus CPI but does limit the POBs ability to pass on real increases in prices from producers.

However, as it currently reads, each annual price increase must be delayed to 13 months as it *defines the Comparison Period as the period of 4 weeks ENDING with the day 12 months before the invoice.*

This means that there are two price increases that come into consideration during the calculation and pushes each annual price increase back one month each year to mitigate an MRO risk. This was surely not the intention of the legislation and impacts all parties as customers and tenants expect price increases the same month each year. However, we, the Pub Company, will lose a month each year despite the brewers putting the prices up at the same time annually. To correct this problem the regulation needs the word 'ENDING' replacing with 'STARTING' or leaving 'ENDING' in place in terms of the products purchased but using the prices paid for the products in the period 'STARTING' 12 months previously. This removes the risk of two price rises being included.

Regulation 5(5)a should be amended to include 'AND EXCISE DUTY' as per Regulation 3(5)a and Regulation 4(5)a. The omission of those words meant that the Government's increase in Sugar Duty raised an inadvertent MRO risk for Admiral which would surely not have been the intention of the Regulations.

Regulation 56 2(b) which relates to Investment Agreement should be amended to read 'which is not made in pursuance of any Pub Owning Business' duty under the terms of the tenancy or licence under which the tied pub is occupied'.

As it currently reads the PCA take the view that a landlord carrying out works which are the tenant's obligation under the agreement cannot be taken into consideration for the purposes of this provision. This acts as a discouragement to investment. If a tenant occupying under a lease wants his dilapidation liability removing as part of an investment, why is that detrimental ? It adds value to the lease and we believe should be allowed.

Schedule of Condition

It is unnecessary to produce a schedule of condition on a rent review. It creates additional cost while adding nothing to the process as the rent assessment of a lease is based upon property being maintained at a fair maintainable level and not the current condition.

Requirement for independent professional advice requirement at renewal

We believe that experienced tenants who are renewing 3 or 5 year internal repairing contracted out tenancy agreements with the same pub owning business on similar deals should be able to waive the requirement to take independent professional advice at renewal, as with the Pubs Entry Training requirement at Regulation 9. This would be in line with the voluntary Code.

We would still advocate a refresh of the Business Plan at every renewal as a healthy business practice but believe most tenants would welcome a more simplified renewal process.

Part B: The Pubs Code Adjudicator

5. How effective do you think the PCA has been between 2 May 2016 and 31 March 2019 in enforcing the Pubs Code?

We believe that after an understandably difficult start, that the PCA has over the last 18 months become increasingly effective and developed a more effective approach to industry regulation. The PCA has endeavoured to work with key stakeholders to create best practice standards across the Code which go beyond the regulations. We would add that the appointment of the DPCA helped alleviate some of the back log of issues at that time. That said we also believe that the PCA could more actively embrace opportunities to drive further improvements such as the creation of golden threads guidance and the validation of POBs standard MRO agreements, the intransigence on these points continues to cause frustration.

a) Does the PCA have sufficient and proper powers to enforce the Code effectively?

Yes. If the PCA believes that there is wilful disregard of the Regulations by any party it has the powers and must start to name and sanction the offending parties.

b) How effective has the PCA been in exercising those powers. What has been done well, what you think could have been done differently?

Again, there has had to be a period of the PCA building relationships and information networks and its own policies and directions as well as an understanding of the Code. The PCA has undertaken a Consultation on Sediment and Wastage which whilst perhaps being over detailed and focussing on de minimis areas, does at least ensure there is a clarity in providing this information and a focus on sound cellar management which is a key aspect of running a good pub.

If there is non-compliance, then we would encourage the PCA to investigate these cases where there are obvious signs of non-compliance with the Code. However, the time has now passed to continue to speak in general terms about all companies being non-compliant if the issues are specific.

Finally, we would add that speedier publication of decisions will assist all parties involved.

c) How effective has the PCA been in enforcing the Code. In particular, how effective has the PCA been in undertaking the following:

- **Giving advice and guidance**

The Best Practice type Regulatory Handbooks have been of benefit. In our view they have gone beyond the specific legal requirements of the Code and created a best practice or 'spirit' of the Code approach which we along with the other pub owning businesses have been happy to work with and accept. It would be of benefit if a draft of future chapters was to be provided to parties with at least a 2 week embargo to allow feedback and ensure that they are realistic and workable in practise.

The guidances issued have been well-intended. However, the guidance around the MRO vehicle has created confusion. The concept of 'reasonableness' has in our view probably been taken too far so that the relative financial well-being of the individual tenant is a determining factor. We remain happy to remove barriers to MRO requests outside of the agreement as part of a negotiating point but believe that the specific terms of what is standard in a commercial free of tie pub lease should remain absolute.

- **Investigating non-compliance with the Code**

We are not aware of any material non-compliance. If there is then the PCA should deal with the offending party.

- **Where non-compliance is found, requiring publication of information, imposing financial penalties or making enforceable recommendations.**

Not applicable

- **Arbitrating disputes under the Code**

This seems to be improving as the backlog begins to disappear and more information is available to all parties.

We would strongly support the provision of golden threads when appropriate as the individual awards are difficult for the layman to interpret.

We would also strongly support that all arbitrations are published as requested with suitable redacting. This is key. The PCA has given assurances that all arbitrations of interest will be published after redacting. Failure to adhere to this will lead to accusations of cherry picking and a breakdown of the entente in this area.

6. Do you think the regulations relating to costs, fees and financial penalties should be amended? If so, how and why?

We recognise that there is a requirement for the PCA costs to be met by the pub owning businesses. However, the costs are being split based upon fixed and variable items and at the moment the amount that is allocated to fixed costs is too high and we feel unfair.

The size of the PCA team is dictated by the activity resulting from referrals and the investigatory work it is required to undertake. If all companies had zero referrals as per Admiral then the size of the PCA would be significantly smaller and thus the fixed costs would be materially lower. We believe the structure of the cost allocation should reward those companies who avoid referrals and PCA time akin to a polluter pays principle. As such we have and will continue to challenge the PCA to find ways of assessing their costs more accurately to enable a higher weighting to the variable cost elements. This issue is further compounded as other POBs evolve their strategy's away from the supported tied model and remove significant numbers of pubs from the basis of the fee calculation. The effect of this is that too high a fixed cost is then allocated across a reducing number of pubs, this means that companies such as Admiral, with zero referrals, face the very real prospect of the levy fee increasing which is totally unjustified and unfair.

Part C: Pubs Code Regulations

- 7. There are two sets of regulations that relate to the Code: The Pubs Code Regulations 2016 and the Pubs Code (Fees, Costs and Financial Penalties) Regulations 2016. You may have commented on some of these provisions in response to queries in Parts A and B, but please provide any additional views on the regulations. If you think changes are needed to the regulations, please explain why and how you think they should be changed.**

See comments In Part A section 4 above.

Part D : Impact Assessment And Other Information

In conjunction with BBPA and the other large pub owning businesses we commissioned the European Economics independent analysis of the impact and performance of the Code and the Adjudicator to date.

We support the findings of that report and the comments made in Part D of the BBPA Response on this issue.

A copy of the European Economics report can be accessed here:

<https://beerandpub.com/policies/property-and-planning/statutory-code-and-pca/>.

In particular, we would strongly contend that there was not a previous market failure in the sector nor evidence of the same nor is there anything intrinsically wrong with the tied pub model.

The strong survey responses we have continually received from Admiral tenants from a variety of sources over many years show that not to be the case. We believe the extent of the dissatisfaction is contained within a small base across a very wide industry.

The tied model works best with support and it is key that the whole industry now focusses on constantly raising the quality of that support, if necessary now under the guidance and supervision of the PCA. If it has taken the creation of that statutory body to ensure those standards are raised and replicated across the industry, then so be it.

Cost to business

We have previously referenced the transfer of value during the MRO negotiating process. In addition, the cost of the industry being regulated by the PCA costs Admiral an additional £80,000 per annum, which is approximately five times more expensive than under the voluntary code. We find this frustrating as we do not believe that our previous business practises created the justification for our inclusion in the Code, we were merely caught by the arbitrary 500 tied pub threshold.

Changes in industry structure or ownerships status

More generally we would say that the introduction of the Code has already impacted the shape of the UK pub market, as has previously happened when government seeks to intervene in the industry. We have seen [Redacted] along with recent activity surrounding [Redacted].

The increase in the number of managed house/operator managed sites is also a direct response to the legislation as companies seek to protect their income streams. The effect of this remains to be seen but it is likely to reduce the number of opportunities for low cost entry into the market for

independent tenants, which is an unintended consequence. That said, there will be tenants who feel the operator managed model better suits their risk profile.

At Admiral we remain resolutely committed to the independent leased and tenanted model and remain focussed on providing our tenants with the highest quality support structure and assistance they need to thrive in the community pub sector.

Pub Closures

We do not believe that there is any evidence that the Code has negatively impacted pub closures indeed we would contest that many marginal community pubs have actually been sustained and protected as a result of our shared interest (with our licensees) and investment in them. There are many reasons for the reduction in pub numbers albeit the closure rate is reducing.

What is clear is that the UK drinking environment has changed massively in the last 30 years. Different generations require different reasons to leave their house and visit the pub. Those people who do visit pubs want well-invested, well presented sites with interesting and varied retail offers.

At times, the loss of 2 or 3 smaller pubs in an area may have been offset or initiated by the creation of a new site with a much larger footprint, selling food and more family orientated. That is the market. Therefore, from an Admiral perspective, the sale of one struggling poorly located pub may provide us with the ability to invest in other sites to provide the conditions that the modern day pub-goer in that area requires.

We remain committed to maintaining our considerable annual investment in our community pubs but this can be impacted by changing legislation. It is for that reason as well as the many others cited that we believe the Code should be given time to develop and become established without significant further change beyond the minor amends we have proposed.

Part E: Other Comments

In summary, we believe the Code is starting to work effectively and needs to be given time to develop in that direction. We would suggest minor amends as set out above, but we are firmly of the view that fundamental change and a revisiting of the primary legislation at this stage is not justified and will set the process back again.

However, we would reiterate that where there is non-compliance from ANY party then we are firmly of the view that the PCA must highlight this and bring these cases to light. Finally, we would like to highlight that much of the negative 'noise' around the Code is driven by a very small number and in our opinion unrepresentative activist groups. Where there is genuine malpractice then it should be shown and brought to light, but many of these views echoed, particularly in trade forums and on social media, are over exaggerated claims unvalidated by facts or real evidence.

There are undoubtedly tenants who have genuine grievances with their POB but across 12,000 retail outlets of any type, it's only inevitable in the normal course of business that there would be some areas of tension between landlord and tenant. However, this clouds the true picture that the supported tenanted model continues to be a highly successful route for many sustainable small businesses across the country.

We are fiercely proud of the positive relationships we have with our own licensees and this has been evidence by our own internal surveys, independent industry surveys and our recent award of

Tenanted Pub Company of The Year. Our engagement activities and surveys of our own licensees have found good understanding and awareness of the Code and their rights under it and a consistent preference by tenants to remain in partnership with us through the supported tied model.