

Submission to the Consultation – Statutory Regulation of the Pub Industry

are the leaseholders of
a Punch owned property. We have operated the Pub for 10
years and held the lease for 7 years.

We are obliged under the terms of this lease to buy all products from Punch for sale in
The lease states that we have permission to purchase Spirits, wines
and minerals free-of-tie, permission which can be revoked at any time. We have also
been given, by our regional director, permission to buy a free-of-tie cask ale on a one-for-
one basis. This means for every cask of ale we buy from Punch we can buy a similar cask
of ale free-of-tie. This permission can also be revoked at any time.

We believe that a statutory code should exist to control the excessive profit taken from
our business. In the year 2010-2011 on a turnover of our stated profit for tax
purposes was . The next year we suffered from material changes in trade, and the
turnover dropped to . The profit for this year was : an increase mainly due
to a hard fought reduction in rent, a toughly negotiated free-of-tie deal and a reduction in
overheads, mainly staff. A copy of our accounts is enclosed. (Withheld)

We estimate that Punch took in excess of (33% of turnover) and : (40% of
turnover) in direct and indirect (wet) rent for these years. Despite the 'supposed help' of a
rent reduction and a restricted free of tie deal, they still managed to increase their take of
our turnover by 7%.

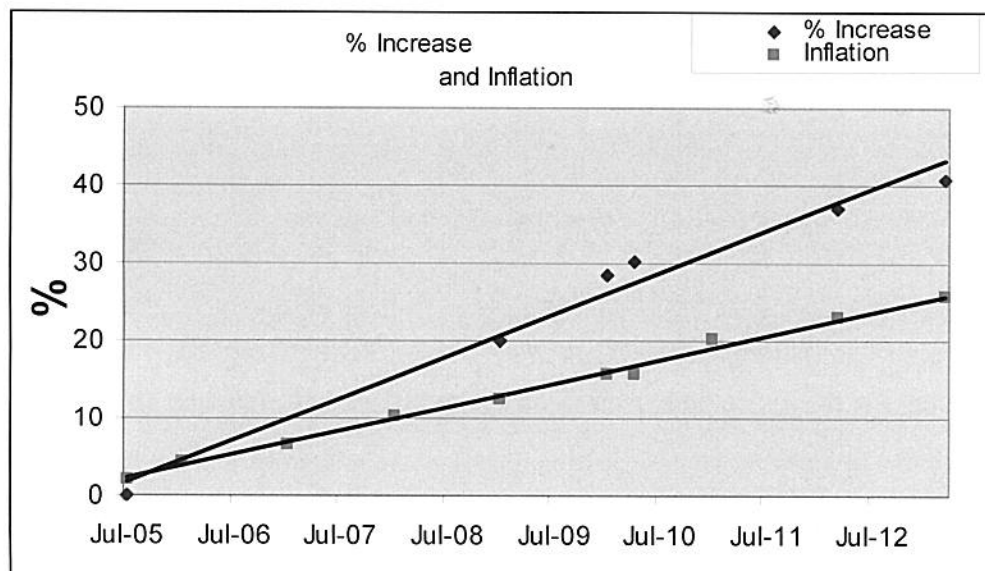
We are currently allowed to purchase a free-of-tie beer on a one-for-one basis. To give
some idea of the differential between open market price and the tied price I include the
tied price and non tied price for the beer we are allowed to buy free-of-tie.

	Punch	FOT
Brains Bitter	£92-21	£54-50

We are predominantly a cask ale outlet and pride ourselves on the quality and variety of
cask ale we offer. We have been listed in the Good Beer Guide for 8 years.

We are signed up to the SIBA Direct Delivery Scheme and are limited to the selected
choice again at much higher prices than can be bought direct. For example a 3.8% abv
beer, SIBA (Punch dictated) price £98-64 (volume discount not available), price direct
from brewery £70-00 (volume discount available).

Below is an example of how our tied prices have increased. The cost of a Firkin (9gallon container) of cask ale has increased by over 40% in 7 years. Inflation over the same period is included for comparison.



The current FOT price for is £85-33 (volume discounts available). The Punch tied price is £111-49 (volume discount unavailable). For us to achieve a 50% GP the respective selling price would be £2-90 and £3-70, at the moment we cannot charge more than £3-20 or risk losing custom to neighbouring managed and Free-of-tie Pubs. There is no advantage to these higher prices by a significantly reduced rent.

Self regulation has had little or no effect for us.

For completeness in this response, below are our answers to the Consultation Questions

Q1 Yes there should be a statutory code.

Q2. The threshold of 500 should only be set for tenanted and leased tied Pubs.

Q3. All Pubs that are not managed should be covered by the code.

Q4. Franchises should be treated the same as tenancies and leases and included in the code. The Pubcos will try to find alternatives outside of the code to continue their abuses.

Q5. I believe I have given an indication of the possible benefits to us in the above statements. The burden of funding should fall on the Pubcos who will try to pass the cost on in rent or beer price. This should not happen.

Q6. Self regulation is not working in the fundamental area of risk and reward. Self regulation has not addressed the unfairness of the 'partnership' and will never do so.

Q7. Yes and Yes. Careful consideration should be given to the methodology used to calculate the principle that a tied tenant should be no worse off than a free-of-tie tenant. The guesswork in calculating Fair Maintainable Trade (FMT) and overheads should be removed. Pubcos and Government currently exploit this guesswork in their favour to set rents and rates.

Q8.

- i. Yes
- ii. Yes
- iii. Yes, although this would be irrelevant if there was a Market Rent Only option with no purchasing obligations.
- iv. Yes, but again this would be irrelevant if there was a Market Rent Only option with no purchasing obligations.
- v. As a degree qualified Electronic Engineer who specialised in measurement systems I have plenty to say on flow monitoring in particular the system used in the majority of tied houses manufactured and operated by Vianet formerly known as Brulines.
There is a mountain of evidence to indicate considerable inaccuracy but little evidence to support the manufacturer's claims of accuracy. It has not been proven accurate by any recognised testing body or in any Court. As claimed, Brulines does not enhance the quality of beer, in fact it compromises beer quality by stopping the licensee from performing an adequate line cleaning schedule.
Flow monitoring equipment should be incorporated under Weights and Measures legislation to ensure an accuracy sufficient to only monitor the tie. Until such time it is controlled by legislation **it should not be in use at all**. I direct the reader to my submissions to the BISC which explain in more detail.

Q9. The basic concept of Annex A is good. There are many grey areas which will require strict definition such as what is 'reasonable', 'competent', 'waste' and how Market rent is calculated. Also there should be verifiable ways of determining SCORFA. You can be sure that if there is a loophole the Pubco will find and exploit it.

Q10. It is essential that the statutory code is monitored and periodically reviewed to ensure the core principles of the code are maintained.

Q11. The code should include a mandatory free-of-tie with an open market rent option. This option is vital to test the validity of the Pubco tied model and give the tenant or lessee the choice. If the Pubco tied model is as good as the Pubcos claim, then this option will have low popularity. It must be there for completeness of the code.

Q12. Make the calculations to compare tied and free-of-tie more fact based. There are too many assumptions being made on vital components in the calculation. FMT, %GP, overheads and SCORFA are values that can only be assumptions.

In our recent rent review, Punch assumed that our overall %GP was 51%. Our trade is predominantly cask ale, 70% or more. This %GP is unattainable due to the price charged by Punch and the lager wastage figure associated with cask ale.

The use of actual figures as presented by an accountant would remove the uncertainty associated with these calculations.

Q13. The Government must appoint an independent adjudicator. Any bias would lead to unfairness.

Q14. Yes and Yes.

Q15. Yes, Yes and Yes.

Q16. Yes.

Q17. The Adjudicator should be funded by a levy from the Pubcos. I do not agree proportionately more should be paid by those that breach the code the most. The levy should be calculated on the number of tenanted and leased pubs the company operates.

The Pub Company will undoubtedly try to recover this cost from the tenant in the form of rent or beer price. This should not happen.

The Statutory Code with the inclusion of a Market Rent Only with no purchasing obligation will open up tied pubs and enable them to compete in the market place. Much needed profits will find its way back to the operator who may reinvest in the business, employ staff or even afford to have the occasional holiday.

Giving the tied pub more financial and commercial freedom can only give the consumer better value and more choice.