

## All-party Parliamentary Beer Group Inquiry: Unlocking pubs' potential Third Session – Tuesday 2 July 2019

### Panel

Mike Wood MP – co chair  
Ruth Smeeth MP – co chair  
Marcus Jones MP  
Liz McInnes MP

### Witnesses

Adrian Cooper, CEO Oxford Economics  
Pete Brown, Chair, British Guild of Beer Writers  
Ellen Hudspith, Policy and Research Manager, Camra  
Kris Gumbrell, Co founder and Chief Executive, Brewhouse and Kitchen

### Introductions

27. **Ruth Smeeth MP** introduced the final session of the inquiry, the aim being to come up with policy prescriptions that would work to help secure a vibrant future for pubs in their communities.

She asked what measure there was of the total **economic contribution** of the sector. **Adrian Cooper** replied that Oxford Economics had done a lot of work over the last 25 years for the beer and pub sector, including evaluating its economic contribution and the impact of policy changes. Across the UK, the beer and pub industry directly employed about 660,000 workers and adding in others indirectly employed via the supply chain this rose to about 900,000 workers. This was 3 or 4 times the numbers employed in motor vehicle manufacturing; and in terms of contribution to GDP, it was greater than oil and gas extraction or chemicals manufacturing.

The sector had changed. The latest data available showed the 5 years to 2016 had seen the **employment** supported by the pubs sector fall 6% across the UK but with some significant regional variations – having considerable knock on effects in their communities. For example, down in the West Midlands 16%, East Midlands 17%, South West just over 20%, London just under 20%, Wales and Scotland 10%, and 17% in N Ireland. He agreed to provide further data to the Inquiry.

28. **Mike Wood MP** asked if there was data about the **underlying trends in closures** – whether there was data on the net decline and underlying patterns of openings and closures. **Kris Gumbrell** was not aware of data on the net balance, but closures were being reported at 24 every week. Against this, microbreweries were opening and breathing life into some high streets - which wasn't as well reported. There were changes in the whole pattern of leisure retail and some pubs simply didn't fit this move; there were also lots of external pressures: companies like Deliveroo meant people could get the

full eating out experience at home with cheaper beer, coupled with changes to home entertainment via options like Netflix. On top of this, the under 25s market was very different now – there had been a rapid growth of low alcohol and no alcohol beers.

**Pete Brown** said that Christie and Co compiled net closure figures. He explained the traditional boozer had borne the brunt of the recent changes but that it had through history. The challenges were changing, for example in countering the alternative value of pub real estate for property companies, in London in particular. For example an historic Bayswater pub making £1m a year profit had closed as the landlord wanted to turn it into flats. When pubs had to compete purely on these bottom line terms they couldn't, but this bottom line ignored their community value.

**Marcus Jones MP** asked whether all job losses were down to closures, to which **Ellen Hudspith** replied Camra's research with tenants showed that job losses were not attributable to closures alone, they were also a result of increasing staff costs and operating costs leading to pubs letting staff go whilst still operating.

29. **Ruth Smeeth MP** asked about the **new business models** in the sector. Kris Gumbrell said that looking at it from the perspective of beer, the sector had been turned on its head in the 10 years. Craft and artisan beers had become more available, there were now 2000 breweries in the UK – the most since 1934 – which were opening and closing at a great rate as the microbrewers realised the need to find routes to market. He said the microbrewers were all brewing keg beer, there was a decline in the traditional cask beer, and maybe beer duty needed to be looked at in this regard. He explained that pubs are an experience business; it was important to get guests involved in their development and to respect the product. People were drinking less but drinking better. This wasn't a volume game any more; pubs needed to find ways to extract more value.

**Pete Brown** said that pubs had worked for 1000 years because they catered to a basic human need to get together and that a relatively low alcohol drink could facilitate that. Recent developments were getting pubs back to this core purpose, with craft beer bars and microbreweries stepping in where once there were sports bars or games bars – ie getting back to the reason why pubs first existed. **Ellen Hudspith** agreed that the trend was getting back to the basics of craft ale, with pubs run by those who serve their communities well. The Pub is the Hub ones provided good examples of pubs looking after whole community well-being as well as being places to drink beer.

**Kris Gumbrell** saw the high street providing opportunities for pubs, but they needed to stand the course for the next generation, showing they could be these community hubs again. To help with this, planning needed to change to encourage people back into high streets, issues around zoning needed to be addressed – for example looking at the French system which encouraged a

vibrant mix– licensing needed to be reviewed, and issues around noise and nuisance. It would take all this to save the high street.

30. **Ruth Smeeth MP** said her constituency included the high street with more empty shops than anywhere else in the UK, but it had 10 different pubs. She asked how the interplay worked to ensure they all thrived - was this more a cultural question or a **planning** one?

**Kris Gumbrell** said that most pubs were self-selecting, with people using different sorts for different occasions and it was impossible to regulate for that. If two pubs locally tried to target the same market one would lose. It was important not to lose sight of the fact that pubs are businesses. That for all the warm words spoken about the sector they were not taxed favourably, they had the additional costs of enforcement, regulation and licensing and they had to buy into Business Improvement Districts and carry the costs of other high street businesses.

**Marcus Jones MP** asked if the future of high street was to include leisure, retail what three things would most help?

**Kris Gumbrell** suggested speeding up planning and listed building consents, and to understand that some pubs weren't fit for purpose. In these cases time shouldn't be wasted pushing the Asset of Community Value route as the landlord would generally win. His perspective, from opening 22 pubs 14 of which had been boarded up showed it was possible to open them, but the profile of pubs was changing as it had become a very different model and difficult to run as a small business. The traditional 'Doris and Bill' model of mortgaging against the house to buy a pub didn't work any more, and there were so many different issues demanding their competence - EHOs, licensing officers – before starting to compete with others. It was a tough business; it needed to be made more rewarding but the business rates system punished efforts. The rating system worked to disincentive new entrepreneurs coming in, as investment overheads were significant but then taxed.

**Adrian Cooper** added that the absolute weight of the **rates** bill paid by the sector relative to turnover was the highest of 61 industries across the economy, and agreed that investment should not be disincentivized by increased business rates.

31. **Marcus Jones MP** asked if **capital allowances** schemes worked to encourage **investment**; **Kris Gumbrell** said that he had used EIS to get started; that it involved significant amounts of capital – for them on average £0.5m per pub. But **EIS** was no longer available following the 2015 Treasury rules change. The change may have benefitted the digital economy and closed a loophole but it had cut off capital funding for projects like his. A refurbishment on the South coast had cost £3m; He'd been able to raise the money through EIS. It took about £1m to buy a freehold but banks wouldn't invest in this sort of scheme because of the sector view on pub closures. He

saw an opportunity to review the ACV route, and EIS routes, to provide a community route to invest. It could be like an EIS, paying back 30p via a tax break for every £1 invested, and allowing for any gain to be CGT free after 3 years. That could attract investors. He mentioned foreign investment had dried up too because of the pound.

**Ellen Hudspith** said she saw a good opportunity for pub companies to invest now, in people and stock, as the pubs code was being re written. There was a lot that pub companies could do with this.

**Ruth Smeeth MP** asked whether banks had downgraded the whole sector for lending, to which **Kris Gumbrell** replied it wasn't particularly surprising that banks didn't want to invest in the 'home cooking replacement' casual dining sector, which included pubs, as the high street was littered with basket cases. However private equity was prepared to take a longer term view – it was the only route available at the moment for his investments, albeit that crowd funding appeared to work for some microbreweries.

**Adrian Cooper** said that BEIS's most recent small business survey found financial services were some way down the list of obstacles identified by SMEs in the food and beverage serving sector – the number one obstacle was Tax, then employment.

**Kris Gumbrell** said that he'd bought 2 pubs last year, sold because they were operationally 'too difficult' as they couldn't get the right people to run them. He'd never seen sites sold for that before, indicating there were problems for training people across the sector.

32. **Mike Wood MP** asked where the role was for public policy, where the right balance lay in government propping up pubs and encouraging the new generation of pubs?

**Kris Gumbrell** explained it would help if government/MPs **changed their language**, that they stopped talking about it being a low skilled or no skilled sector. A survey had found that 97% young didn't want hospitality as a career, but it paid bills - £39bn in tax every year for the UK. The language was driving people away. They had just 9 applications for each job advertised in London, 40 outside London; 82% of applicants used to be from the EU but it was now 52%; there were significant queries still about the right to remain and registration system and how a points system would work, creating real uncertainty.

**Adrian Cooper** thought it also important to **change the perception** of the type of **employment** offered – including the opportunities for young people and for part time workers, often portrayed as a negative. **Kris Gumbrell** said that 43% of their employees were under 24. Employees included part time students, whose expectations of the sector had been mismanaged at school with the sector presented as being a threat rather than opportunity. It had become an accidental career. **Pete Brown** said many graduates were

resorting to start ups when no other career was available, with some councils such as Leeds seeing them as attractive ways of kick starting regeneration in run down areas, but this relied on the energy of a start up business– and unreasonable hours – which was ultimately unsustainable. It needed grants or investment to recognise the regeneration and support.

**Marcus Jones MP** queried whether this meant that more needed to be done to support them make viable business plans, to which **Pete Brown** explained it was also better awareness of the broad skill set needed - not just creative ideas, vision, social media and brandbuilding but also of the back end - balance sheet and EBITDA.

**Ellen Hudespith** added that some of the perceptual issues came from the anti-alcohol rhetoric – but with the death of the high street it was becoming evident that when a pub closed the local community centre it provided closed with it.

33. **Ruth Smeeth MP** asked how the impact of **duty** differed between the on and off trade

**Adrian Cooper** explained that the off trade historically hadn't passed on beer duty increases and prices in the off-trade had fallen significantly relative to the on-trade – this was a reflection of the different businesses and operating models. He said demand in the on-trade was much more price sensitive than the HMRC/Treasury assessed in its modelling, meaning that any increase in duty had a more significant impact on on-sales versus drinking at home.

**Ellen Hudspith** said there was a certain weariness every year in asking for a penny off beer duty, but it had slowed down the rate of increase. Camra was now working on a differential rate for draft, and low alcohol, beers.

**Marcus Jones MP** asked, from an operator's standpoint, whether it was more important to tackle beer duty or business rates?

**Kris Gumbrell** explained that operators had bills to pay one of which was duty; that duty was exceptionally high in comparison to the rest of the EU, that it should be tackled as it was an excruciating cost, but questioned who got the benefit from a reduction in duty. The current system was penalizing the middle space between the big brewers and micro-brewers, and hitting cask ale. So maybe Treasury should look at a duty model around the type of beer. Everyone in the sector and its supply chain had the same story about other operational costs increasing, claiming that they needed the reduction in duty to pay for their costs, meaning the consumer saw very little of it.

**Adrian Cooper** said the comparative costs equated to 13p for every pound in turnover in excise duty and 4p in business rates.

**Pete Brown** thought it depended on who you asked. The 'squeezed middle' of family and mid-sized brewers suggested the Treasury needed to

understand how their models worked in practice, as from a business growth perspective it was not right that a brewer he'd worked with had decided to reduce capacity from 15,000 barrels a year to 10,000 to make themselves more profitable. It didn't make sense to have a system where reducing capacity by a third made a brewer more profitable, whilst leading to job losses.

**Kris Gumbrell** said that the current thresholds worked to the advantage of microbrewers who brewed very high volume beers, highly priced, relatively strong alcohol brews, but they were happy to sit there rather than grow a portfolio, their business and jobs. In comparison, his brewpub model meant that every pub he opened started a new brewery and created 30 jobs, but created no economies of scale from increasing volume. This was why he supported the basis of small brewers' relief, but thought a more graduated scale would help to support some of the mid-scale family brewers who had kept craft beer alive in the 1970s and 80s but were now getting a real kicking from the duty regime.

**Mike Wood MP** said Treasury officials denied that duty impacted consumption or volumes; they saw no evidence of clustering around the threshold for small brewers relief, to which **Kris Gumbrell** replied there was real time evidence. But he didn't disagree that the question needed to be changed to work out where the benefit really accrued.- the current duty system worked off a clumsy model and should be rethought.

**Adrian Cooper** said that the link between excise duty policy and beer consumption was evident if you looked at recent trends: having fallen sharply in the 10 years to 2012, beer sales had stabilized since and indeed risen slightly in recent years, which corresponds with the change from significant annual increases in excise rates pre-2012 to rates being broadly held stable since. And **Pete Brown** said the increased rate of pub closures had correlated with duty escalator, and slowed down with the duty slow down, but whether this was correlation or causation was hard to say given the other influencing factors in the period, such as the introduction of the smoking ban. **Ellen Hudspith** agreed to share Camra's latest research showing the effect of price increases on the numbers of pints sold.

34. **Ruth Smeeth MP** asked what recommendations would help recognise the **social and environmental impact** of drinking in a pub as against buying from a supermarket – VAT, duty changes, other, perhaps recognizing the environmental difference?

**Kris Gumbrell** said it was important that operators benefitted from a change. Compared to 20 years ago, licensees were now so well trained, underage drinking had never been better regulated, pubs never so well run; these are responsible retailers. Compared with the performance of the on trade and their failure record underage serving. The on trade should be rewarded for doing what it was doing, getting people to connect in their community, supporting cask ale; anything that incentivized this had to be

positive and at the same time operators needed to look at ways of improving their returns and making the guest experience more affordable.

**Pete Brown** said it was interesting that the alcohol concern lobby now identified well run pubs as being part of the solution, not a cause, of problem drinking. He thought the environmental argument wasn't yet well expressed and could be; A recent discussion on the future of pubs in 2029 suggested the price of a pint may show the cost of their environmental footprint; the debate was moving rapidly, and waking up to the small environmental footprint of cask ales, and the brewpub model of pints travelling a matter of metres from brewhouse to point of sale.

**Liz McInnes MP** asked if there were also options for refilling containers for off sales from pubs, which **Kris Gumbrell** said they offered already, but were looking to see what they could do better

**Adrian Cooper** said Oxford Economics had studied the economic impact of different duty models on the on and off trade, which he would provide to the Inquiry. It was important that something was done.

**Kris Gumbrell** warned it was difficult to accurately forecast the impact of such interventions on the pub sector, as shown by the changes within the sector following the beer orders. It was a very different sector now, operating many different models and not knitted together, so it was a matter of looking at many different solutions. One could be doubling NI thresholds, as this would help make employment more affordable, and help with apprenticeships, which could all get the message across about the employment opportunities. Beer had never been more exciting. But the basic business model of a microbrewery wasn't great so it would be good to help make that more affordable.

35. **Mike Wood MP** asked for suggestions for **measuring/quantifying the good that pubs do** and how this might be recongised/ploughed back.

**Pete Brown** said he'd been considering that since a parliamentary report had derived a formula that calculated the costs of alcohol at £21bn a year, including intangible costs, about 80% of which had been estimates. He said there was a need to develop the rhetoric against this in terms of the positive value to the economy of intangibles such things as a boss taking the workforce to the pub, or a friend helping a mate over a problem, or solving a workforce dispute over a pint. The figure could be far higher than £21bn.

**Ellen Hudspith** said that Professor Dunbar, Oxford University, had researched some aspects of this showing communities with pubs were more likely to be happy, engaged etc and she would share with this with the Inquiry. Rick Muir's Pubs and Places research had estimated £80k a year value put into the local economy by local pubs.

**Ruth Smeeth MP** said that this inquiry had found that licencees did not always have great awareness of their wider contribution, not necessarily recognizing their offering as providing a wider public health function with possible opportunities for funding support. **Pete Brown** said he thought this was difficult for the industry to put forward because of the flack it would attract.

36. **Ruth Smeeth MP** asked if there were any other recommendations.

**Kris Gumbrell** said the **people** side of the sector needed more attention; access to apprenticeships needed to be made easier, the sector needed to be talked up, it needed more respect and support. The Home office needed to see it as a force for good, so encouraging more good people and ideas to come in. It needed a change of language and tone; for years the sector had been self-healing but it wasn't any more – it needed help. For example, immigration might be a hot topic, but without it, who will be serving?

37. **Mike Wood MP** asked aside from the levels of **business rates**, what were the problems around administration?

**Ellen Hudspith** explained that Camra had asked government for a root and branch review; Save St Alban's pubs campaign had found the VOA had been using turnover to set rates rather than following the proper ratings guidance agreed between the industry and VOA.

**Kris Gumbrell** said that there was a feeling their sector couldn't be trusted to provide accurate evidence of trade, even if they produced documented accounts. And the system penalized, rather than rewarded, them for investment and creating jobs – for example he had been hit with a £27k increase in rates before he had reopened a pub which had been closed for 4 years, He saw sorting this more important than beer duty.

**Marcus Jones MP** asked if there should be a period when pubs couldn't be revalued after making an investment? **Kris Gumbrell** suggested an offset period would help. It could take 2 years to get an appeal heard and many businesses would be bust by then. And the problem was this wouldn't necessarily worry councils, as if they turned into retail into residential the council would keep 100% in council tax compared to the 50% of business rates. But this in the interests of valuing the high street.

**Liz McInnes MP** said her local council had a policy of low business rates for the first year and could this work wider?

**Kris Gumbrell** said he had suggested this to Bournemouth who'd said they couldn't do it; **Mike Wood MP** said the Localism Act allowed for it. He said the sector had always argued against floor space as the basis for valuation but should this now be reconsidered? **Kris Gumbrell** said pubs were different to other retail; it wasn't simply a matter of filling a concrete shell. They had to fiddle around with old buildings.

38. **Mike Wood MP** asked if there were any other regulatory changes that would support pubs, to which **Ellen Hudspith** said Wales needed to change planning permission to permission for demolition prior to change of use, and Scotland needed to close some loopholes around in demolition of non listed pubs. She also recommended scrapping the **late night levy**, which was a very blunt instrument based on opening hours – as recommended by the House of Lords licensing act review.

**Kris Gumbrell** endorsed the call for the late night levy to be scrapped and asked for **listed buildings consents** to be rationalised – he had applications for 2 sites waiting 8 months for listed building consents. A better balance was needed between protection and pragmatism when it came to making a space viable. Whenever they complained about the time taken the council gave a stock answer of no resource.

**Marcus Jones MP** asked if there could be a fast track system, which **Kris Gumbrell** said could help; it effectively worked that way already through council's various ransom demands. But in terms of wider economic regeneration this would need a root and branch review if high streets were to have a hope of not collapsing on themselves, given that they were largely traditional buildings. This would be a problem for wider retail, for landlords and councils.

**Mike Wood MP** asked if this would make a potential conflict with Camra's recommendation for pubs and bars to be classified sui generis rather than retail? Should it be made easier for shops to be turned into pubs and bars or harder for pubs and bars to be turned into shops?

**Kris Gumbrell** explained that a lot of pubs were not fit for purpose for the modern environment and so the reflex action should not be to close a pub but to look at the building; if locals wanted a pub they had to use it. Lifestyles changed; the market had changed. Thin the herd and they'd survive. If the fight was to keep all pubs open none would win as it would be too restrictive and unattractive for investment.

**Ruth Smeeth MP** thanked the witnesses and closed the hearing; a visit to pubs would take place in the recess and the report would be published in the autumn.