

## All-Party Parliamentary Beer Group Inquiry: Unlocking Pubs' Potential

**Second hearing: Tuesday 25 June 2019**

### **Panel:**

Mike Wood MP, Ruth Smeeth MP

### **Witnesses:**

**Katy Moses**, Managing Director of KAM Media

**Tanya Williams**, licensee of the Polgooth Inn, St Austell, Cornwall and BII Licensees of the year 2018.

**Suzanne Baker**, Commercial Director of Stonegate Pub Company

**Mandy McNeil**, St Albans Councillor, vice chair of Save St Albans Pubs and Save UK Pubs

### **Introductions**

17. **Mike Wood MP** explained the previous session had outlined some of the ways pubs in which are changing and regenerating; this session had been organized to hear more about the challenges and headwinds facing pubs as businesses and employers.

**Katy Moses** introduced herself as Founder and MD of KAM Media. Her experience included 12 years of research with publicans and the wider industry, discovering, exploring and reporting back on behaviours and attitudes. KAM Media's licensee index covered 17 different pub companies, providing feedback from tenants. She emphasized the importance of pubs as a force for good – they raised over £100m for charity in addition to their contribution to the UK economy with hospitality employing over 3 million people. Visit Britain's research published that morning (25/6/19) had shown that tourists viewed pubs as the third most important thing to do; KAM Media's research showed 97% of 1000 questioned acknowledged the community importance of pubs and bars. However, they were facing headwinds as employers, needed support and less red tape.

**Tanya Williams** explained she and her husband Alex ran the pub, at the heart of their local community, that they had originally been hotel managers but had moved into the pub trade because it was more non-judgemental and refreshing. However, they'd found the industry had become totally judged, quite unloved, unrespected and completely undervalued by society at large although valued locally. Their annual turnover was £1.5 m, employing over 40 staff, last year they raised £6.5k for charities but paid £281k in tax, representing 19% turnover.

**Suzanne Baker** said Stonegate was the largest privately owned pub company in the UK, with a turnover of £800m employing 14.5k staff, they ran pubs and bars across the UK, via a branded division and a diverse traditional

pub division, plus nightclubs and cocktail bars. She'd been in the industry for over 30 years. They all loved pubs but the headwinds of business rates, taxes, and some of the costs thrown at industry were astronomical. The industry needed some of the extra love coming back in that they dished out.

**Mandy McNeil** introduced herself as CEO of a consultancy firm, and vice chair of Save UK Pubs born out of Save St Albans Pubs born out of the hike in business rates. She had run for the local council on basis of wanting to know where money had gone. She was representing landlords from tied pubs mainly, but had formed a working group with BBPA, UK Hospitality as all had a common issue with business rates which they had submitted to the Treasury. The problem stemmed from pubs' rating being treated differently to other forms of retail, such as outlets like Pret or stores, which were rated by floorspace, with pubs instead being taxed on turnover - which doesn't reflect profitability. The 2017 valuation guidelines had been intended to provide some protection for this through the fair maintainable trade calculation which had been intended to provide a more level playing field. They had looked at over 3000 St Albans pubs and found that the VOA hadn't applied these guidelines, instead choosing an average measure of 10% of turnover of pubs around the country. The VOA officials had said they had no ability to assess fair maintainable trade although the guidelines specified that anything over £625,000 should be adjusted. The Treasury's response was that the VOA was working as intended. The VOA said it was BBPA's fault. The consequent impact on most landlords was an immediate write off of 50% beer sales, causing some to close down.

18. **Mike Wood MP** asked where the main **competition** to pubs came from, to which **Suzanne Baker** replied it was Tesco and Sainsbury, as they didn't face the same costs as pubs and their pricing encouraged people to **drink at home**. They didn't face pubs' costs in looking after people - encouraging sensible drinking, **door staff costs** etc. Stonegate spent £23m pa looking after people in their pubs; supermarkets had no obligation to look after drinkers in parks etc, so the impact of pricing was unfair. **Tanya Williams** emphasized this inequality - they regulated drinking in pubs - you couldn't buy unlimited amounts of alcohol - whereas supermarkets did not have to regulate drinking unlike other sales such as paracetamol.

**Katy Moses** said competition came from other sources as well - for example cinemas which were expanding out to offer things like baby yoga and open mic night. These places were **competing for the same leisure pound** but did not provide the same level of regulation and tax. 73% of Generation Zs looked for experiences different to those provided at home - for example Escape Rooms - but pubs couldn't afford to invest in these 'experiences' if they were being hit by costs that other leisure outlets weren't. **Mandy McNeil** explained this was exacerbated as any investment was then caught by being taxed as higher turnover in **rates**. Pubs were also facing unequal competition from within the sector with one having a hike in business rates not faced by another. There was also unfair competition in the way

restaurants were taxed on their square footage; in a pub of equivalent size in St Albans they were paying three times as much per square metre.

**Katy Moses** explained a further issue was that the pub's margin decreased as investment was put in – eg when refurbishing a room - albeit that turnover might increase which would lead to a higher rateable value. **Tanya Williams** said this all went to discourage investment – why do so if you could tick along without? **Katy Moses** said she had spoken to tens of licensees who had said likewise.

19. **Ruth Smeeth MP** asked if this meant they were more likely to **invest in people** rather than buildings? To compensate for the 'experience' by investing in customer service. **Tanya Williams** said yes. They had been hit by an increase in rates before they took over the lease of their pub. The way to improve the experience was to invest in staff, and so get customers in. They invested in training, but the hourly rate they paid was not as high as they would like it to be because they were having to pay so much elsewhere. **Suzanne Baker** explained that 48% of their employees were under 25 – if there was a **change in NI** contributions moving from under 21s to under 25s it would make it easier to employ more younger people, invest more in their training and keep them in the trade.

**Mandy McNeil** said some pubs were investing in facilities, eg 17 new Michelin-starred pubs had opened, **Ruth Smeeth** said this showed the different response from London and urban centres, which could sustain a Michelin starred restaurant, to other very different places which couldn't. In these communities the response might be that the link between areas such as Stoke or Burton to pubs and beer disappeared as those running the businesses got fed up. **Mandy McNeil** suggested a **relief to encourage apprenticeships**, such as in France where restaurant VAT relief was dependent on it. **Suzanne Baker** said recruitment in London and SE was very tough, and with Brexit the pressure was likely to get tougher. The pressure wasn't as great elsewhere but likely to grow.

20. **Mike Wood MP** asked about the opportunity cost of the increase in **business rates**. **Tanya Williams** explained she had burst into tears over rates as there were no open discussions with the VOA, they laughed when she tried to explain the business - eg that they had removed tables to increase customer experience - and this was utterly demoralizing; but meanwhile you had to inspire your staff to smile behind the bar. She said she loved the industry but this was making her question whether to stay in it.
21. **Ruth Smeeth MP** said it was clear that the rating system needed a complete overhaul but asked whether there were some **short term fixes for rates**, before the next revaluation in 2021, and whether there could be recognition in the system of social value.

**Mandy McNeil** said the **valuation guide** said what VOA should be doing to recognise these things but they were not being done. It was being applied on

an appeals basis only. But when it came to **appeals**, there weren't people who knew the business to appeal to. She mentioned one case who had his rateable value increased from £27k to £103 k, wiping out half his profits, but he was waiting 3 years for the appeals process. **Suzanne Baker** agreed that the process wasn't working as intended; it had been set up to reduce the appeals system but Stonegate meanwhile still had 20 appeals in place from the 2010 rerating.

**Mandy McNeil** recommended **investing in resource at VOA**, freezing cases now while things were being reviewed so that those appealing wouldn't have to pay more; and get the industry working together to revisit the guidelines. She suggested changing to a system of **annual online self-assessment** in line with company accounts that the VOA then checked up on. **Tanya Williams** added that they should also include **more categories**, and ensure the VOA had people trained in what they were doing; **Suzanne Baker** emphasized a whole new system wasn't needed – but the present one needed tweaking and implementing - there needed to be sufficient categories, the **VOA needed specialists** who understood the market, there should be open discussions as part of the process and the log jam in the appeals system needed to be removed.

22. **Mike Wood MP** asked if the assessment system could work if carried out properly. **Mandy McNeil** thought the benchmark of turnover at £625k which was then discounted from was set a bit high – of the 3000 pubs they had looked at only 30% had increase over 50%, - this should have rung warning bells about the cap but it hadn't.

**Tanya Williams** said **delays** were a problem - it had taken a letter from their MP to speed up their appeals against an increase in RV to £110k from a proposed amendment to £75k from the original RV of £53k. **Mandy McNeil** said the online advice for appeals was to check if nothing had been heard after 45 days – the onus was on the appellant to chase – and then to chase again after 18 months. Currently there were delays of around 2 years. A lot of people weren't bothering to appeal as a result. **Tanya Williams** explained the real life impact of this – having to justify why you shouldn't be paying the levels set, when what you want to do was serve customers. This was endorsed by **Katy Moses**, adding that at the same time inflationary costs elsewhere had to be factored in – food, wages etc – leading to savings having to be made by cutting training or investment or quality – effectively impacting the quality and standards in pubs. **Tanya Williams** said the end result of this would be two different sets of pubs – the elite and the survivors.

**Mandy McNeil** explained the average publican took home £15k. But because the VOA hadn't implemented the fair maintainable trade cap a lot of pubs moved from below the **£51k threshold for rate relief** to above it. Because pubs were taxed on turnover rather than square metres the relief was also working against pubs compared to other retail. It would work better if everyone got tax relief for the first £51k regardless, allowing some help whilst things were being sorted out through appeal.

In terms of action needed now, in advance of the 2021 revaluations, **Suzanne Baker** said it was important to review bandings; get through the log jam of appeals; invest in the quality of people reviewing the appeals and in the VOA and their training – the VOA needed more people and more people with an understanding of how the industry works, what margins looked like and cost pressures.. **Mandy McNeil** said the summit being held in September in St Albans as part of the beer festival would provide a session on the guidelines, so all could have a say on what they should look like, then present them to Treasury to put to VOA.

23. **Ruth Smeeth MP** asked whether there were any problems in getting **finance**, whether there was any evidence of the sector devalued by banks?

**Mandy McNeil** said she had case studies of money borrowed against a house, then because of the revaluation profits and cashflow had gone down, affecting their collateral and value of their lease, and so causing problems in raising cash; **Tanya Williams** said she had struggled with **electricity suppliers** not wanting to get involved with pubs because of the closures – leading to a domino effect; **Mandy McNeil** added there was a problem with people with unpaid goods when pubs close their doors.

24. **Ruth Smeeth MP** asked if the traditional model of **husband and wife team** was being lost, to which **Tanya Williams** replied that they were such a team, but she could see it was an increasing challenge to find two people who loved that same industry. **Katy Moses** had run a focus group including husband and wife teams, which had found that one of the biggest issues was they couldn't go off on holiday together – it was too expensive to recruit relief staff with sufficient knowledge and skills – she had one example of a couple who had run a pub for 18 years and had one holiday. **Suzanne Baker** said that their managed pubs tended to be run by single operators, increasingly female; Stonegate had a home grown policy taking them through the ranks and over 200 had gone into general management ranks over the past 2 years.

**Mandy McNeil** had anecdotal evidence – of a husband and wife team taking on a third pub in order to cover what they needed, earned by 2 pubs 3 years ago.

**Tanya Williams** said that operating as a single manager meant you'd have to surround yourself with professional people, all taking considerable investment and trust. There was a definite place for single managers but you had to invest money in the right team of people. **Katy Moses** said there was evidence of a move to a broader family team eg mother and daughter, so giving more freedom whilst allowing for the trust; it was a passion business, so ran in families.

25. **Mike Wood MP** asked **what attracted people** in, to which **Suzanne Baker** replied the opportunity for a **career**. There was a need to **change the image of the industry** from perception as a low wage unskilled sector to an

alternative for younger people, to show the apprenticeship schemes and investment opportunities. **Katy Moses** said they had asked 1600 tenants why they had wanted to run a pub, the most common response was to run a profitable business, second, to be part of a community, third, to be their own boss and fourth, to have professional progression they were in charge of

**Tanya Williams** said people weren't generally proud to run a pub. The attitude was you didn't do well at school so go and be a cook/work in a pub.. **Ruth Smeeth** commented that that same people then trusted you to provide safe food and a safe drinking environment. **Suzanne Baker** said many people got their first experience behind a bar at university; it was important to get the message out that you could get a lot of responsibility very quickly. **Mandy McNeil** said it was a sector issue but also needed to be addressed via schools and GCSEs; it wasn't just doing food tech at school but looking at running hospitality programmes, teaching people how to run businesses, budgeting etc. **Ruth Smeeth MP** said a secondary school in her constituency ran a bistro once a month along these lines. **Tanya Williams** explained they used a huge skill set on a daily basis – marketing, promotion analysis etc - but in pubs they weren't seen as professionals, whereas those same skills in hotels were. They needed to be taken seriously. How to change perceptions without being able to afford to pay the right people the right wage? Once people started working a pub they realized how great it was – for example they had one member of staff who had come in for a temporary bar job and switched in permanently to train as a chef from being a paramedic. These opportunities weren't made evident in school.

**Ruth Smeeth MP** asked if there were posters up in pubs, telling these stories and celebrating the skills. **Suzanne Baker** said they did have them, showing the pathway, telling the stories; **Tanya Williams** said there were problems in getting the message across at a younger age – there were certain restrictions on sponsoring material but why weren't more hospitality industry representatives in secondary schools on careers days, talking about hospitality?

**Mandy McNeil** said St Albans ran a food and drink festival last year, with interviews with people passionate about the industry. This sort of model could partner with the local council. Most people go in because they love people and want to serve.

**Mike Wood MP** said Stonegate had been at the apprenticeship skills fair in Dudley. He asked how to get rid of the notion that this wasn't just a until something better came along. What were the **key skills**? **Tanya Williams** said it was personality – they had a good history of training in house, from 16 to 62 year olds, but the basic **communication skills** had to be there for front of house staff. She saw a difference in the 16 years olds now coming in, as they didn't have the same social skills. They had severe anxiety as they were not used to communicating with people.

**Suzanne Baker** agreed that in a social industry they needed to have people who could mirror that sociability – people who could have a chat across the bar – and then be trained.. She thought the sector was exceptional in terms of taking people at start of their career and growing them to run their own business at a very young age.

26. **Mike Wood MP** about the **indirect costs** added by unintended consequences of **regulation**. **Mandy McNeil** pointed to the costs of fitting disabled toilets to a grade 2 **listed pub** - buildings that involve so many costs that there should be some sort of relief, instead of which it there just seemed to be regulations prohibiting things. . **Suzanne Baker** pointed to **planning** which had been very heavy with red tape, holding back investment on the high street when it was crying out for regeneration. There appeared to be councils who held things up for the sake of it – for 2 years – while the company meanwhile lost the manager, and staff, maybe costing up to £200k of profit in 2 years through not being able to invest.

**Katy Moses** pointed to **allergen labeling** as an example of unintended consequences. Pubs needed more help where they didn't have the resource of head office. Laws like these needed to provide support for smaller businesses, as they incurred a time and investment cost while they got up to speed. Similarly, with **calorie labeling** – it was a different matter to work out labelling on a menu served over 200 pubs to that for a single pub with a simple menu that changed every evening. Research showed people go out for an indulgent eat – to treat themselves - so they were not interested to know if 500 calories or 550. The amount of extra work would be unbelievable with knock on effect on sustainability – as pubs shied away from using fresh produce ..

**Mandy McNeil** gave an example of new regulation from Thames water on certain sorts of taps costing £1k each

**Tanya Williams** said **training staff** took time. They changed their menu change 3 times a year and it was complicated briefing all staff. Labelling was not a bad thing but had gone over the top. Consumers demanded it as government had dictated it.