

Unlocking Pubs Potential Inquiry (APPBG)

Introduction

Ei Group's (EIG) purpose is to own and operate sustainable pubs that are at the heart of local communities, and the business is built upon the strength of its leased and tenanted pubs portfolio, coupled with a rapidly growing managed pubs estate.

EIG's published strategy is to further grow the number of pubs subject to FOT agreements and to also increase the number of managed pubs (see Appendix).

At 31st March 2019, EIG owned 4,057 largely freehold pubs across England and Wales, of which 3,555 are occupied under tied lease or tenancy agreements and are subject to the provisions of the Pubs Code. Of the balance, 83 pubs are occupied under FOT lease agreements and 419 pubs are operated as managed houses by subsidiaries of EIG (Craft Union Pub Company, Bermondsey Pubs & Ei Managed Investments).

EIG invests approximately £80 million in its pub estate annually, supporting a diverse portfolio of leased and tenanted pubs, as well as a growing managed house estate. It facilitates an extensive range of wholesale drinks supplies from over 500 international, national, regional and local breweries as well as wines, spirits and soft drink suppliers; this allows our publicans to offer great choice to the consumer, whilst supporting a wide-reaching supply chain.

EIG has its Pub Support Centre in Solihull, West Midlands, and employs 1,350 people which includes approximately 750 members of staff across its directly managed Bermondsey Pubs business.

Pubs are a force for good

- Pubs provide a focal point and a force for good for many communities raising £100million a year for charity according to **PubAid** – EIG owns or operates 10% of the UK pub population.
- EIG supports its pubs to thrive in their respective communities through initiatives such as sponsoring local community programmes and providing funding for schemes including **Pub is the Hub**. For example, at the Swan Inn in Carleton in Craven, Pub is The Hub supported the publican and local group, Carleton Community Umbrella, in transforming an underused area of the pub into a café and local hub. We are a proud supporter of Pub is The Hub and have been since 2005. Our most recent donation means our total contribution to the Pub is The Hub funds now stands at £245,000.
- EIG partnered with **The Royal British Legion** as its official corporate charity partner until December 2018 after four successful years. In that time EIG raised over £90,000 for the charity through a variety of initiatives including the sale of Poppy Beer across its estate, with 20p from every pint going to the RBL.
- EIG now partners with **The Clink Charity**, whose sole aim is to work amongst ex-offenders and reduce the incidence of reoffending by training prisoners whilst they are serving their sentences, and placing graduates into employment in the hospitality and horticulture industries upon release.
 - A recent **Justice Data Lab** report states that a Clink graduate is 49.6% less likely to reoffend having been through one of their programmes and the Charity is well on the way to achieving its goal of training and releasing more than 1,500 highly trained and qualified graduates into employment each year.
 - We are exclusively brewing a cask ale in collaboration with Marston's named '**Serving Time**' with 25p from every pint sold being donated to The Clink.

- **Bermondsey Pubs** have started to roll out the Clink programme into a number of key sites whilst several publicans have also expressed an interest in getting involved.
- In addition to centrally organised charitable work which has helped over 45 charities (**Pub Support Centre Charity Committee**), EIG pubs, both leased and tenanted and managed, run and coordinate their own local charity events which helps to cement them at the heart of their communities.
- For example, leased and tenanted pub, the Swan Inn in Thornbury has raised a total of £118,000 for local and national charities in the last seven years. Our managed business, **Craft Union Pub Company** also recently celebrated the outstanding contribution its operators make in their communities across the UK at the annual operator awards in Blackpool with some 200 pubs awarded a combined £100,000 in prize money whilst a further £15,000 was donated to charity.
- Recent focus in the media on **mental health and loneliness** suggests that a visit to the pub can be good for social wellbeing (regular events bringing people together, sport/quiz/bingo/poker/charity events etc.). EIG works collaboratively with **The Licensed Trade Charity**, who support hundreds of people facing a crisis with practical, emotional and financial support each year. Staff from pubs, bars and breweries received a record amount of £1.1m in grants from the Licensed Trade Charity in 2018 and almost 13,500 people benefited from its services in 2018, up by 45% on 2017.
- EIG has continued its work with **Stride Ventures** again in 2019, supporting their Pub Pros programme in our leased and tenanted estate. The work readiness programme, mainly targeted at sixth formers, aims to inform and inspire pupils about careers in pubs. Since the partnership began in 2015, Stride has worked with 18 EIG pubs across the leased and tenanted and Bermondsey Pubs estates partnering them with 24 schools and colleges.
- Bermondsey Pubs are also supporting the **Diageo Learning for Life** – a six week long Bartending and Hospitality Training Course which is led by The Springboard Charity. So far Bermondsey have taken part in one cohort and had three people undertake a two week placement in three pubs (Fox (Twickenham), Swan (West Wickham) and Marquis of Wellington (Bermondsey)). There are over 100,000 graduates globally and 78% of UK participants will go into full time employment in the industry within 12 months of finishing the course.
- Craft Union Pub Company has partnered with **‘Only a Pavement Away’** which creates a conduit between employers in the hospitality industry and those charities/associations whose main aim is to support the homeless, ex-offenders and ex-service personnel reintegrate back into society.
- EIG currently has 54 colleagues within the Group taking part in an **apprenticeship** as well as a further 10 in Bermondsey Pubs.
- In March EIG achieved the highly prestigious **Investors in People Gold Award**, which is given to organisations who demonstrate excellence in developing and supporting their employees.
- EIG is committed to reducing its environmental impact and running a more eco-friendly and sustainable operation.
- Pubs actually **reuse and recycle** much of what they use to serve food and drink to the consumer. Pubs use kegs/casks, glasses, crockery and cutlery, as well as leading in the removal of items like plastics straws. In contrast the off trade generates plenty of glass, metal and plastic, which then needs to be recycled, assuming the consumer goes to the trouble of disposing their rubbish in the appropriate way.
- Our pubs create a **multi-point supply chain**, which will generate employment, as well as additional government revenues. As well as the Group being made up of individual small businesses, the supply chain supports a number of small businesses, as well as the ever increasing network of smaller brewers springing up over the UK. Across our Beer and Cider portfolio alone, over 1,400 product lines have been sold into our estate over the 12 months to 31st March 2019. Through our association with SIBA, we are able to offer beers from over 400 cask brewers and through its Flying Firkin arrangement, even smaller cask beers are made available across our estate.

National Pub Fortnight (July 19 - August 4)

- Initiated by EIG three years ago, National Pub Fortnight (partnering with Star Pubs & Bars and Punch Taverns this July) aims to highlight and stimulate consumer interest in Great British pubs and provide publicans across the country with an exciting opportunity to drive footfall through encouraging new and returning customers to visit their venues, with extensive promotions to generate awareness.
- **Research from National Pub Fortnight 2017** (Research conducted by Opinion Matters between 23/06/2017 and 26/06/2017 resulting in 2,008 UK adult respondents).
 - 1 in 10 of Brits visit at least once a week with men twice as likely as women to visit 2-3 times a week.
 - Over a third of respondents heralded their local pub as the place to go to meet people and socialise.
 - Over half of British pub-goers still champion their local pub as the place for food and drink, but it's fast becoming the place do other things such as celebrate an occasion and to meet people.
 - Perhaps predictably 57% of us visit our local pub to eat and drink, but half of us use the local to meet friends.
 - Pub culture-loving Brits are willing to go the distance to visit a celebrated pub with 1 in 10 happy to travel up to 15 miles to tick one off the list.
 - Over a third of 16-24 year olds (35%) would include pubs in their holiday itineraries with 25-34 year olds most likely to plan a recreational activity with a pub in mind (15%).
 - Pubs don't just represent day-to-day activities, in fact they are still very much hosts to a number of life events from wedding receptions to graduation celebrations. Top of the list is a birthday celebration (53%), followed by funeral wake (43%). Over a quarter of us had celebrated their wedding reception and 5% have been proposed to (nearly 1 in 10 in the East Midlands!) in a pub.

Headwinds

- Pubs are a vital part of local communities, providing essential public space and supporting livelihoods. Pubs are under a range of tax pressures (including Beer Duty, Business Rates & VAT) and **one in three pounds spent in pubs goes to the taxman. The government already collects £3.5 billion every year in Beer Duty, as well as almost £10 billion in other taxes on pubs and brewers.** The burden of taxation is one of the reasons **three pubs a day close** their doors for good (BBPA).

Business Rates

- Business rates are a major cost to pubs, who pay a disproportionate amount compared to other sectors. The revaluation of rates across the UK in April 2017 saw many pubs suffering further significant increases.
- Business rates form a significant percentage of a pub's total overheads. In the EIG estate alone for 2019, total business rates are likely to exceed £50m before allowing for the relief earmarked for two years. Sites in London and the South East generally saw higher increases in rateable value (RV) and rates bills resulting from the 2017 revaluation exercise.
- In the leased and tenanted estate, EIG has seen increases in pub's RV from 2010 to 2017, some as large as 327% (meaning an increase in RV of over £100,000) which is the case at the Bell in Walthamstow. At the Chequers in Bath, the pub's RV increased from £25,200 in 2010 to £59,750 in 2017, with actual rates payable increasing from £12,096 to £28,680.
- Recent reliefs from Government such as the one-third cut for properties with rateable values below £51,000 are welcome, albeit at present this is only temporary.

Beer Duty

- Total excise duty and sugar taxation on drinks consumed in EIG pubs results in a total take for the Exchequer in excess of £120m (internal Ei Group calculation based on total drinks volumes over 12 month period to 31st March 2019).
- Between the tax years 2001 to 2018, total excise duty on beer increased by 21% to some £3.5bn. Between 2000 and 2017, beer volumes in the UK declined by 22%. However, whilst this was driven by on trade beer volume declines of 46%, the off trade actually grew beer volume by 28%. Over the same period on trade beer prices grew by 69% (broadly in line with RPI increases of 60% over the same period), whilst off trade beer prices grew by only 3%. (BBPA statistical handbook tables A1, A6, C9).
- Whilst the off trade (specifically supermarkets) do not need beer to survive, beer is generally the lifeblood of a pub's offer. Additionally, a pint sold in the on trade should generate far more in taxation (in terms of VAT and resulting employment taxes) than a pint sold in the off trade. Furthermore, once that alcohol is purchased, the off trade takes no responsibility for how that alcohol is consumed, whereas the on trade bears this responsibility on the premises.
- Whilst beer volumes have decreased over the period 2000 to 2017, the UK consumer's total alcohol consumption has remained broadly similar, measuring 8.0 litres per head of 100% alcohol in 2017 compared to a figure of 8.4 for the same measure in 2000. Again, the decrease has been driven by beer in the on trade, whilst the alcohol consumption per head from beer has increased in the off trade (BBPA statistical handbook tables B8, B9, B10).
- Whilst the freezes/reductions in beer duty over the last six years have been welcome, these pale into insignificance when comparing the rates of duty the UK consumer pays with those in Europe:
 - Minimum levels of excise duty by category are stipulated by the EC and it is then up to member states to determine levels in their respective countries.
 - UK Beer drinkers pay some 11 times the amount of duty paid by their German counterparts (BBPA statistical handbook table D9).
 - In 2017, the combined group of Germany, France, Italy, Spain, Belgium, Poland, Czech Republic, Cyprus and Luxembourg (nine countries) paid some €3.88bn in Beer duties, whilst consuming some 22.5 billion litres of beer. Whilst the UK consumed some 4.4 billion litres of Beer (c. 1/5 of the 22.5 billion litres), the duty paid on this was the same at €3.88bn (raw data taken from Brewers of Europe Beer Statistics 2018 Edition).
 - Duties on Wines and Spirits paint a similar picture: the UK pays the third highest rate of duty on Wine and the fourth highest rate on Spirits. In respect of still wine, the EC has set the minimum duty level at nil – as a result some 14 member states, including Germany, Italy, Spain, Portugal and the Czech Republic charge no duty on still wine. Not far behind are France, charging only 2.5p on a 75cl bottle of Wine; in contrast the UK now charges over £2.20 per 75cl bottle (BBPA statistical handbook table D9, HMRC duty tables).
- As Beer Duty is such a huge cost to each pub business, we firmly support the BBPA's **Long Live the Local Campaign** which calls on the chancellor to reduce Beer Duty across the UK.

Machine Games Duty/VAT

- Machine games duty/VAT – in excess of £6m is generated in combined MGD/VAT from gaming activity in our estate (internal EIG calculation based on Machine activity in the 12 months to 27th April 2019).

Licensing

- The main issue with regards to Licensing is that there is little consistency in each council's approach to licensing applications. For example some councils only allow manual applications but will close their offices at 3pm. Therefore a publican could be unable to submit a crucial licensing application as they

would not be able to make payment. This may mean that the pub must close so as to avoid trading illegally.

- Additionally some councils can be difficult to contact and some will have different requirements for an application which means that publicans could be trading illegally as they are not satisfying that particular council's requirements, regardless of the legislation being adhered to.
- The consequences for the publicans would be detrimental as they can include an unlimited fine and up to six months imprisonment.
- The solution of this would be a more unified approach between the local authorities with regards to the **Licensing Act 2003**.

Property and Planning

- The pre-application method is required for more planning applications due to planning officers not having the time to meet on site and discuss difficult schemes as they would have done in the past. These pre-applications attract a fee and once submitted a response should be received within four-six weeks. This does not always happen and when it does the advice may not always be clear, so much so that there is absolutely no guarantee that the planning will be approved if we take the advice of the pre-app prior to the full application.
- It seems that recently full planning applications are taking longer to be registered by local authorities which has a knock on effect to the date for determination. We feel that due to work-loads, planning officers will wait until the final moment to make a decision perhaps without having a chance to consider the scheme fully.
- Changing personnel in local authorities appears to be on the increase. At a listed site in Uxbridge property managers had three conservation officers and two planning officers throughout the planning process. This has added significant delays to the project starting on site. Each officer has a different way of seeing things which can be very frustrating even though we assume they have the notes from their previous colleague.
- Remedies for the above are around allowing permitted development in the commercial market on sites which are not listed, employing more local authority planning and conservation officers or as building regulations have done allow approved external agents to take up the role of the planning authority with the same powers to speed up the entire process.

Other areas for consideration

- **Online gambling** – compare the relatively loose environment where individuals can gamble at will online with the controlled and limited environment in the pub.
- **Health Lobby** – whilst the focus on improved health is unarguable, the risk is that constant media coverage will place more pressure on pubs. Additionally, although the pub trade embraced the smoking ban in 2007, with devastating consequences for many smaller pubs, it did little to address smoking in the home.
- Potential costs to come from **Deposit Return Scheme** policy changes.

Conclusion

Despite an environment of unprecedented political uncertainty and inflationary pressures, pubs remain a force for good and have a unique role to play in society. They are at the centre of Britain's socio-economic make up, bringing our diverse communities together and enhance Britain's reputation abroad. They are among the top three places to visit for tourists coming to the UK.

However, as we have highlighted above, running a pub remains a challenge with many publicans still battling under the weight of sharply rising taxes and regulatory costs.

EIG is therefore urging the Government to continue with its vital support for the Great British pub with further action on beer duty rates, still among the highest in Europe, and permanently addressing the crippling business rates burden borne by the pub sector.

These measures will create thousands of additional jobs, boost inward investment, tourism and export growth, and ensure a pint in the pub remains an affordable pleasure, bringing together people from all walks of life.

EIG Chief Executive Officer Simon Townsend is willing to support our written submission as a witness at any future hearing.

Ends

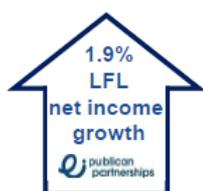
EIG Overview (31.03.19)

Resilient and diversified business

Net Asset Value per share at £3.32

Publican Partnerships

To work in partnership with our publicans to develop great pub businesses



- Core largely wet-led tied leased and tenanted estate
- Drive like-for-like ("LFL") net income through investment and by supporting publicans to grow their business
- Average net income per pub up to £83,100 (H1 2018: £80,900)

3,555 (H1 2018: 3,856)

Commercial Properties

To maximise the value of Group assets using our commercial property expertise

- Monetisation of 348 commercial properties for net consideration of £332.7m, completed on 14 March 2019
- Further 22 sites agreed to be sold, subject to superior landlord consent, for £11.4m
- Rebuilding a commercial property portfolio, remains a core element of our value creation strategy
- Average net income per property for 61 retained properties of £65,600 (H1 2018: 351 properties, net income per property of £68,600)

83 (H1 2018: 351)

Managed Operations

To maximise earnings by investing in defined retail offers and direct control



Craft Union Pub Company (299 sites)

- Simple to execute, can be scaled with speed
- Smaller with no food offering, with a sports focus

Bermondsey Pub Company (58 sites)

- Informal and vibrant atmosphere
- Wet-led with some food

ROI of 25% on conversions

357 (H1 2018: 276)

Managed Investments

To identify talented operators and enable them to create exceptionally successful businesses that deliver strong financial returns



- Pubs with significant upside potential
- Partner with the best operators in the industry
- ROI of 22% on conversions

62 (H1 2018: 43)

4,057
Sites

£353m
Revenue

£140m
Underlying EBITDA

£3.3bn
Property assets

96%
Freehold

52%
LTV