HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Pubs Code Adjudicator, HC 589

Tuesday 12 July 2022

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Watch the meeting

Members present: Darren Jones (Chair); Tonia Antoniazzi; Ms Nusrat Ghani; Paul Howell; Mark Jenkinson; Charlotte Nichols; Mark Pawsey.

Questions 27 - 71

Witnesses

II. Mick Howard, Operations Director for the North, Star Pubs and Bars; Nick Light, Managing Director, Stonegate Pubs; Clive Chesser, CEO, Punch Pubs; Ed Hancock, Group Operations Director and Group Property Director, Marston's.

Examination of Witnesses

Witnesses: Mick Howard, Nick Light, Clive Chesser and Ed Hancock.

Q27 **Chair:** We now welcome Mick Howard from Star Pubs and Bars, Nick Light from Stonegate Pubs, Clive Chesser from Punch Taverns and Ed Hancock from Marston's. I am interested to get more of an understanding of the data to underpin some of the narrative that we have heard in the first session. I am just going to ask each of you for some data as it relates to your individual businesses, if that is okay. Clive Chesser, how many of your pubs are market rent-only lessees?

Clive Chesser: Since the instigation of the code, Punch has issued 14 market rent-only leases.

Q28 **Chair:** Out of a total of how many?

Clive Chesser: We currently have 1,200 pubs, of which around 800 are tied tenancies. As a little bit of history: we sold approximately 2,000 pubs to Heineken in 2018, so our pub numbers have changed in the meantime. Currently in our estate, we have seven of the market rent-only leases remaining.

Q29 **Chair:** Of the 1,200 pubs that you have, when a trigger event comes up for them wanting to request an MRO, what percentage ask for one?

Clive Chesser: Thank you for asking, because it is helpful to understand the numbers that were being touched on in the last session. I had a look at the numbers across an aggregate as well as for Punch, and they are very similar. It is useful to think about the reasoning behind this. Of those publicans who have an opportunity to call for an MRO agreement, we are seeing, since the beginning of the code, 18% in Punch and around 15% across the industry of tied tenants asking to explore that opportunity.

Of those tenants, as was correctly suggested earlier, in the region of 3% end up choosing to take the market rent-only and the free-of-tie option. The balance end up choosing to remain on a tied agreement, perhaps using, quite rightly, the leverage that the opportunity gives them to negotiate a deal that they are content with. That is, in the vast majority of ties, the way it ends up.

Q30 **Chair:** About 18%, so around 216 of your total number, on average, are requesting it and you have ended up with three. When you go through the MRO process, do you just use a very simple deed of variation to the existing lease or do you start a whole new lease process with them?

Clive Chesser: We normally start a whole new lease. Every situation is different. That is the first thing to say. The aim of the legislation is to create, if it is requested, an option that mirrors a commercial free-of-tie world, trying to reshape a tied agreement that includes all the benefits that a pub company brings—

Chair: I am just conscious of time, so the answer is generally a new lease.

Clive Chesser: Generally a new lease, yes, because of the complication.

Q31 **Chair:** Of those companies that requested an MRO, how many saw their rent go down compared to when they were tied and compared to when they were not?

Clive Chesser: I could not honestly tell you. Do you mean if they remain tied?

Q32 **Chair:** No. They have gone from tied. They go into a market rent only option. Did their rent go down or up?

Clive Chesser: I could not tell you factually, but I would be amazed if the answer was not up every time.

Chair: So you would generally expect it to go up.

Clive Chesser: Yes.

Q33 **Chair:** Do you have a general sense as to how much it goes up as a percentage?

Clive Chesser: I could not give you a general sense, because it depends on the mix of the business. A business that has a very high volume of beer would be very different to one that is very food-led.

Q34 **Chair:** Understood. Everyone else has had early sight of the questions, so maybe we can pick up the pace a bit. Mick, how many out of the total number of pubs that you have are on MROs?

Mick Howard: We have granted 56 MROs, but we have had 303 notices from people who are interested in exploring that route.

Q35 **Chair:** What is your total number of pubs?

Mick Howard: It is 2,400. It was 2,700. We have gradually disposed over the last few years, so the figure was higher.

Q36 **Chair:** Do you use a new lease, not a deed of variation?

Mick Howard: Yes, in most instances.

Q37 **Chair:** And you generally expect your rent to go up.

Mick Howard: I do, but I do not agree with one of the comments earlier, in that we do not set a new rent based on pubco lost profit. There is a model to set that rent, which is based on the profitability of the MRO site in the market.

Q38 **Chair:** I should have asked you that question. Is that the same for you?

You look at the profitability of the site, not what you lose from no longer being tied.

Clive Chesser: Absolutely.

Q39 **Chair:** Ed Hancock, it is the same question, please: how many MROs of your total number?

Ed Hancock: We have 17 MRO pubs from a partnership estate of 900. Our requests are similar to Clive's, in that about 20% request it and between 2% and 3% take it up.

Q40 **Chair:** And you use a new lease, generally you expect rents to go up, and you do it on the profitability model.

Ed Hancock: Yes, and the point that I would add is that all rent negotiations are carried out within RICS guidelines, so it is the achievable rent of that property. I would say that, post Covid, we have seen free-of-tie rents equal to tied rents, so not the significant increase that has been articulated in this room.

Q41 **Chair:** Lastly, Nick Light, what are your numbers, please?

Nick Light: We have 142 pubs that have gone free of tie through the MRO process out of 593 applications that have been made for MRO since the code was introduced.

Q42 **Chair:** That is of a total estate of how many pubs?

Nick Light: It is 2,700, roughly.

Q43 **Chair:** And you use a new lease, your price generally goes up, and you use the profitability model as well.

Nick Light: Yes, initially new lease. Since guidance has become clearer in terms of the vehicle that can be used for transferring to MRO, we have also introduced some deeds of variation as well. I would reiterate that the way in which the rent is determined by chartered surveyors is an open market assessment based on gross profit, not based on loss of profit to the tied pub company.

Chair: Say that to me again so that I understand it.

Nick Light: The rent assessment on a free-of-tie basis is absolutely based on the open market rent, assuming a gross profit margin based on a free-of-tie arrangement, not tied. In other words, there is not a calculation that says that the denied income from the pub company becomes the new free-of-tie rent.

Q44 **Chair:** Is that the same for all three of you? It is. There is quite a big drop-off between requests for a market rent-only lease and the number that finally sign. Do any of you have any observations as to why that is the case?

Mick Howard: Clive touched on it. It is one of the benefits of the pub code. It brings more transparency to the rent review process. It allows a more open discussion between the pub company and the tenant. Both parties look to find resolution. Given the number of applications versus the number of people who take it, the figures show that, quite often, the pub company and the tenant find a resolution.

Chair: Presumably you all agree.

Nick Light: I would concur with that. When I gave the statistic about 142 free-of-tie agreements, more than twice that chose to stay tied through a negotiation, having served a claim first.

Q45 **Chair:** We heard earlier that these processes were intended to be quite quick, but that they end up going on quite long. On average, how long does it take for an MRO lease to be agreed from point of request?

Clive Chesser: It frustrates us as well. It takes longer than we would want.

Q46 **Chair:** Why does it take longer?

Clive Chesser: I think I am right in saying that 37% of them are referred to arbitration, and that process can take some time. The vast majority of those are referred by the tenant, to be clear, but it is a frustrating process.

Mick Howard: I have a very similar comment. There has been the use of tactical arbitration, usually by the tenant, to prolong the process. We saw a change in the ways of working in April this year, which has certainly improved that arbitration process and saves costs for all parties. There has been a benefit brought by the PCA this year on that.

Q47 **Chair:** Why would a tenant want to tactically delay?

Mick Howard: Because there are 14 days to resolve the situation, or it is referred. If it was tactically delayed, it then gives more time to have that discussion.

Clive Chesser: The amended regulations that have gone live very recently will help that.

Mick Howard: We have already seen a huge drop-off in arbitration numbers since then. At this point last year, we were in the 40s. We were at 29 in August and we are at nine currently, based on the new process working.

Nick Light: I would concur with that. The three-month window now for negotiation will make a big difference to arbitration submissions.

Ed Hancock: I would just continue to stress that we use chartered surveyors in all our negotiations, so we use professionals.

Q48 **Charlotte Nichols:** In the previous evidence session, we heard about the use of section 25 notices. Licensee groups have suggested that tenants are served section 25 notices when they apply for market rent-only leases. How many section 25 notices have you issued to tenants and how many of these have been because they were eligible or applying for a market rent only option?

Clive Chesser: We have typically issued two or three section 25 notices a year. They can be related to market rent-only agreements but, in the vast majority of times, they would not be. We work on what is the right solution for that particular property within the estate and the different types of agreements that we run in the business. We run some fully managed pubs, a joint venture business, some franchise businesses, and tied agreements, so the number has been relatively low. From the top of my head, it is something like 27 over the last four or five years.

Mick Howard: We have issued only four in the last four years, so that is an average of one per year. Our strategy is very much the right model and the right agreement. None of them has been issued because somebody has decided to go MRO. We issue them because we think that, commercially, the best thing for that property is to be on a managed operator agreement. Section 25s have been around for 70 years. They are tried and tested in the judicial system. It is not used lightly and we pay considerable compensation at the point that we do it.

There was mention in one of the submissions that those compensations are low, but the case that was mentioned in that is certainly a six-figure sum of compensation. If they are used—and we use them sparingly—the tenant is compensated. They come only at the end of a lease agreement, so a pub company cannot, partway through, serve that notice just because it does not like the tenant anymore. They cannot at rent review because they do not like the rent. It is on expiry of the agreement, at which point the landlord and the tenant can both make a long-term decision. Sometimes that decision for us is that that property is better run on a different agreement.

Ed Hancock: Over the past five years, we have probably served 12 section 25 notices under ground G for owner-occupation. We have an estate of managed houses and, when we serve those notices, it is when we are confident that we can run the pub as a managed operation and it is commercially sensible to do that, and it forms part of our managed estate. It is not a vehicle to avoid MRO.

Nick Light: We have served 81 based on ground G since the code commenced, and I would concur with my colleagues that it is used only when there is a genuine intent to run a pub through a managed business. If I take my business, for example, we invest typically between £250,000 and £500,000 when we take a pub for managed, so it is a serious business decision to take. It is not about MRO, but about the best future of the site.

Q49 **Tonia Antoniazzi:** I am going to go on beer pricing again. On average, how much more are your tied prices compared to free trade prices? Overall, how much does your company make a year from the differential between tied pricing and free trade pricing, in your estimation?

Clive Chesser: I have to say that I do not know the answer to that; I apologise. I do not study all of the free trade pricing models.

Q50 **Tonia Antoniazzi:** Is it something that you can find and write to the Committee with?

Clive Chesser: I certainly could, yes. I would also stress that there is a real variability in different styles of pubs and different types of agreements. Just to a point from the earlier session, if I may, we are champions of small brewers. Over 200 of our pubs work with SIBA, the small independent brewers' association, and we provide a real range as well as a real flexibility on pricing.

Mick Howard: Similarly, I would struggle to do exact numbers, so I would prefer to write to you with them. We have a number of relationships with small brewers. We are a member of SIBA as well, which is an independent organisation headed up by the brewers themselves. The prices we charge are not overinflated on other prices that we charge. The prices would be similar for cask ale, whether direct from us or through SIBA. We also do, more and more frequently now, free-of-tie lines in pubs, where there is a particular local interest from a brewery. We recognise the importance of local provenance in both food and drink. That is very important for our pubs and we facilitate that for the operators.

Q51 **Tonia Antoniazzi:** Can you give us an example of what you would pay a small independent craft brewer for a keg or cask of beer? Would you be able to do that?

Mick Howard: I could get you that information. A firkin would be somewhere between £60 and £100 maybe.

Ed Hancock: I would have to find the information out. All I would stress is our stated aim, at Marston's, as a pubco. I would like to correct something that was said previously about us having merged with Carlsberg. We have not. We have sold our beer business to Carlsberg and have retained a 40% interest, so are run as a standalone pub company, but with a guest-led strategy. We want to serve beers that our guests want to drink. As a really good example of that, in recent times, we entered into a transaction to acquire the Brains pubs—it was about to go into administration—and have maintained the supply of Brains beers to all those premises. It was important to us that we maintained the integrity of those pubs to the local people.

Nick Light: I am afraid I have to give the same answers as my colleagues. We can certainly come back to you with that information, though. I would concur with the views that we do embrace small brewers and give them a route to market. We make sure that our publicans have an extensive range of products that are relevant to their customers. We have some pubs with guest ale facilities as well, which are at liberty to go where they wish for those local ales.

Q52 **Tonia Antoniazzi:** I do not want to bring up my particular case, but you have a brewery literally five miles down the road driving past every day, as we have heard earlier with the others. It is costing them more and they get less beer. Because it is a regional beer, it sells out very quickly. It goes against the grain with people who want to drink the beer and who go to that pub, as well as with the publican and the brewer. Is there more to do?

Mick Howard: There is always more to do. Given the way that the market is evolving, people want more local provenance around all the products that they drink. For the generations coming through, that is something that they look for, so we are all working on areas like that.

One thing that pub companies provide—I am not aware of too many examples like the one you mentioned—is that we broaden the route to market for some of these small brewers. It gave them far more access to a wider group of pubs when we opened up the SIBA scheme, so that a small brewer could be delivering to sites that they may not have come across.

Q53 **Tonia Antoniazzi:** I know that they are very imaginative and very good, so it is just about being able to visit Gower and have a pint of beer that is made in Gower. That is what the problem is, but I digress.

Ed, how much do you charge a genuine free house for a barrel of Marston's beer compared to one of your tied pubs, which generally may be a lower price?

Ed Hancock: I do not know the answer to that, because we are a standalone pub company now, so we do not sell beer to any free houses.

Q54 **Chair:** It is really important that we get this right, because we are being asked to make a referral to the Competition and Markets Authority, which is something that we would need to consider. The CMA has a lot to do, and so to ask it to do something is a serious consideration for this Committee. You and your teams were briefed in advance that we were going to ask questions about beer pricing, but none of you has the answers. I need to see the difference in pricing between tied and market only, and any evidence that you have on Tonia Antoniazzi's questions about brewers that are not part of your groups. You can share that information in commercial confidence. It is not something that we will have to publish, necessarily, but I do need to see that pricing structure. If you can all commit now to sending that to us, that would be very helpful. Is that a yes? Thank you.

Q55 **Mark Jenkinson:** I am going to return, as I did in the first panel, to Covid and ask how each of you supported your tenants through the pandemic, and particularly any support to free-of-tie tenants—as we heard in the previous panel that there may not have been—such as rent reductions to those on market rent only leases.

Nick Light: We gave continuous support to our tied publicans from April 2020 until July 2021, and it varied according to the circumstances and the restrictions at the time. Sometimes it was 100% rent credits, and sometimes we gave 100% trade credits, so that pubs could restock ready for opening. We also invested in garden schemes to improve outdoor trading.

I would stress that, if I look specifically at my company, Stonegate bought the Ei Group in February 2020, and Covid came in March 2020 and closed the estate. Stonegate gave immediate support unconditionally. We heard earlier about conditions on support. There were no conditions on our support. We also went to the debt markets in order to make sure that we had funding to provide what we wanted to for our publicans, as well as to continue our wider strategy. We invested in PPE equipment. For publicans who wanted to vacate earlier, for example, we permitted that, where that was possible.

I am very proud of the support that we gave. As far as the free-of-ties data is concerned, they did receive some concessions. I am not party to the detail, because that is not part of the estate that I manage, but they were given concessions, although not to the same extent as the tied business.

Q56 **Mark Jenkinson:** You wanted to clarify that there were no terms attached to that support.

Nick Light: There were no conditions attached to our support.

Q57 **Mark Jenkinson:** But are you confident that there were no conditions attached to any support offered to those free of tie as well?

Nick Light: I would need to check that, because I do not manage that part of the business. The support that we provided demonstrates the value of the tied relationship. We heard earlier about a query about SCORFA benefits and how they can be quantified. Lockdown provided great evidence of how SCORFA benefits can be quantified, because the industry invested over £360 million in support.

Mark Jenkinson: But you will follow up.

Nick Light: I will follow up on the free-of-tie bit, absolutely.

Ed Hancock: The tied pub support that we gave was similar. What I would add is that, in the first three months, we gave rent concessions. On some pubs, when Covid first started, you will recall that pubs with an RV over £50,000 got no Government support, and we gave grants to some pubs with RVs over £50,000 out of our own pocket to make sure that they could make it through.

In respect of our free-of-tie pubs, they are free-of-tie commercial leases. Clearly, there has been lots of legislation to protect free-of-tie commercial pub tenants. We have given concessions to some pubs and have agreed repayment plans with 90% of our free-of-tie tenants over generous periods of two to three years. We have given them significant support in the context of the commercial property market.

Mick Howard: We supported tied tenants throughout the pandemic. As Nick mentioned, it was £360 million from the pub companies invested in rent support alone. We invested £62 million in rent alone. On top of that, we have mentioned the SCORFA benefits. We provided PPE equipment, which was in short supply. We provided POS materials. We paid for health and safety lines. We provided a whole load of training to help people to reopen. We also replenished everybody's stock, which was not a contractual obligation for us to do. Pubs had been shut for months and we gave people free stock to help them reopen.

It really is disappointing to hear that people cannot see tangible benefits of SCORFA, because the pandemic shows for the pub companies what the relationship is. We put support in place before the Government brought in the intervention with commercial landlords, and brought that framework in. The pub companies had already reacted, so there was no need to intervene. We recognised that there was a shared risk relationship and, morally and commercially, had made the right decisions. All my colleagues would tell you that we all had very few pubs that closed during Covid. They all reopened. If you look at what has happened in the sector, where you have seen high street sites and casual dining sites close, this is where commercial landlords did not support and were charging full rent. It is quite the opposite with the pub companies.

Clive Chesser: We are all rightly proud of how we supported our tied tenants through Covid. At Punch, we worked in two phases, it is fair to say. In the first part of lockdown, the support from the Government, which was very strong, was quite lumpy and depended on rateable value. We tailored our support around that. When the Government support became smoother, we brought in a blanket approach to rent support. We conceded the majority of our rent during the lockdown period.

As with the others, we invested in replacing stock. We invested in over 330 pub gardens during the lockdown period. We were really proud that, if you remember the day when we could reopen with outside space only, we got 78% of our pubs open. The day we could open inside, we had 98% of our pubs reopening. We were rightly proud of how we supported them. In fact, I honestly think that relationships and the strength of the partnership have never been stronger.

Q58 **Charlotte Nichols:** Just to come back on this point, what you have spoken about in terms of the support that was offered to tenants is admirable, but one of the points made in the previous session was around the duty to ensure that MRO pubs were not suffering a detriment because of this. What is your view on whether your MRO tenants faced the detriment versus your tied tenants for that support that was offered during the pandemic?

Clive Chesser: We have only a handful of them and, similar to the others, have a combination of deferred rent concessions. I would argue that we always have a closer partnership with our tied tenants. That is the nature of the relationship. We provide training and support. All the way through the pandemic, we were holding webinars. We had our operations team out providing, in many cases, supports on mental health and wellbeing, and our pubs were incredible in their community. We have a much closer relationship, so I am not ashamed of the fact that we did support our tied tenants better.

The comparison that I would make, if I may, is whether we supported our free-of-tie tenants better than in the wider commercial free-of-tie, landlord-tenant world. I am sure that we did.

Nick Light: We certainly supported the free-of-tie tenants differently. As for the detriment bit, at the point where they take MRO, they have opted out of that shared risk relationship with the brewery and, therefore, the ongoing relationship does differ. However, we still supported our free-of-tie sites. We put over £1 million of rent support in place. That was in credits, with people agreeing repayment plans or agreeing long-term repayment plans, and the vast majority of customers have accepted that. We have agreed deals and moved forward. There is a small handful outstanding.

Ed Hancock: It is a similar conversation. The majority of our MRO tenants are really grateful for the support that we have given them. We have not been a heavy-handed landlord. We have agreed sensible repayment plans with them and they continue to trade out of the predicament that Covid put us all in. The support was different, but that is by design of the model and what we have talked about—SCORFA benefits and the benefits of being a tied pub tenant.

Nick Light: It is fair to say that those who were going through the MRO process but had stayed tied got exactly the same benefits as any other tied publican, so there is no distinction between the two. It is equally fair to say that, when pubs do go free of tie, there is a conscious risk associated with that, which is that you lose the tied support and, therefore, the support becomes very discretionary. We chose to do it at a lower level. We are proud that we did it and we can see, emerging from Covid, that our free-of-tie publicans are doing okay. We get to see the metrics in terms of liabilities and so on, but we do not get visibility of trading performance anymore. The important consideration is whether they were treated the same way where they were in the process of going free of tie. The answer is yes.

Q59 **Paul Howell:** I just want to change the discussion slightly. We have been written to about the concept of Uber pubs. You will be familiar with that term. Is that a fair description? Are these models emerging because, effectively, it is going to be a form of franchise but not be covered by the pub code? Is that why they are emerging? Where is that model coming to? What is driving that differential? Is it just a way around what is happening or are there other factors that drive it?

Mick Howard: Models of that sort have been around pre the pubs code. Small and multiple operators have operated similar models to it. If it was a way of getting around the pubs code, all we would do is let pubs on that model and serve section 25s, neither of which we are doing. The vast majority of our estate is still leased and tenanted, and our strategy is to remain leased and tenanted.

Q60 **Paul Howell:** Could I just ask you to give me a quantification? Out of your estate, roughly how many would you see as being in this Uber model?

Mick Howard: Give or take one or two, we have circa 130 out of 2,400. There is no great goal to accelerate that. There are synergies of there being a few more in it for us from a back of house point of view. What the model does offer, particularly in today's climate, is an even lower-cost, lower-risk entry into running a pub for a local person. We have found that we can invest in estate pubs that an entrepreneur would be less prepared to do at the moment, so that estate pub gets invested. We can find somebody on the estate who has retail skills and who can go and take that pub, with training and full back-of-house support. They earn a percentage of turnover and they earn profit share. We fully support them in running that pub.

If anything, it is bringing another agreement to the marketplace that increases the accessibility of people to run pubs with investment. In the current climate, we are finding that there are far fewer entrepreneurs who want to invest at the moment. One of the reasons that we have maybe done a few more of these this year is that it is easier to do that investment and run that model than to find somebody who wants to invest £50,000 or £100,000 in the current climate.

Q61 **Paul Howell:** If pubs are running that model, would they have to buy all of their beer through you?

Mick Howard: They do not buy anything. They do not pay any bills.

Paul Howell: No, for the beer.

Mick Howard: Yes. We supply all the beer. We pay all the bills. We supply all the wine, spirits and minerals. We give them market support. As for the operator's responsibility, they bring the front-of-house skills. They train and recruit the staff. They choose which entertainment and activities they run. Unlike the Uber model you mentioned, they choose how little or how much they want to work and, therefore, how much they want to earn. They take a profit share from the business as well.

Q62 **Paul Howell:** As I understand it, there would be a threshold, if you like, in that they have to try to achieve at least X value of sales.

Mick Howard: Not in our model, no. A straight percentage of turnover is for wages, which is above industry benchmarking, and we provide profit share on top of that. For the right person, it would be a very lucrative way in and it does offer good career progression for people who are maybe earlier on in their career. They are assistant managers or in retail, and cannot afford the 100 grand to go and buy a lease off somebody. They certainly cannot afford a quarter of a million to go and buy a freehold, but this offers an opportunity in a well-invested site, and we can use the benefit of our scale to really to bear training and support, and all the materials to help make them successful.

Q63 **Paul Howell:** Do you want to go back to the first question about other beers? You said that the way that the model works is that you supply the beer anyway, but are they allowed to take other beer in on top of that or not, just for clarity?

Mick Howard: They do not buy the beer. They have some choice in beer range to choose from, but one of the bits of expertise that we bring is knowledge around cask ale and craft beers. We say, "This is the optimum range and these are the products within that range," and the operator can make choices.

Q64 **Paul Howell:** Do you think that that model will grow or stay where it is at now? Is it a model that is gathering traction?

Mick Howard: We have no plans to get into hundreds and hundreds of them at the moment. Will it get traction?

Q65 **Paul Howell:** The thrust behind the question is whether it is a model that you are promoting above others, or is it just another one that is out there that people can take?

Mick Howard: Our core strategy remains leased and tenanted, with individual entrepreneurs running their own business. This model suits certain pubs, and probably why we serve so few section 25s, because it has to be the right pub going on to the right agreement, with the right person running it, and then commercially right as well. That is the thinking.

Q66 **Paul Howell:** Clive, I spent a little bit of time on those things, but could you talk about the differences to you rather than going through those?

Clive Chesser: I just wanted to try to answer your question directly about whether it is going to grow and why we do it. Fundamentally, we all run retail businesses. We are all in a competitive marketplace and we need our pubs to be successful, or we are not successful. The reason we run different types of models is that they are popular. Mick has described this model. Ours is very different and there are a couple of technical differences. They can buy different beers elsewhere, but they are broadly similar models.

The reason why they are popular is that the balance of risk and reward is very different. The risk that the operating company takes on is very low; the cost of entry is less than £5,000. It is a bit of working capital. They take on that last 20% of the delivery of the pub, and bring that entrepreneurial flare and local passion. In an environment right now that is full of cost inflation and risk, it is an incredibly popular model, because the truth is that we weather the storm if costs are to increase temporarily for however long. They are very well sheltered from that.

What we want from the management company is its passion and expertise in running the pub brilliantly locally, and delivering the service and that flair that you see in the franchise world.

Q67 **Paul Howell:** You have just made me think of something. At the moment, you say that they are protected from cost variances. We are all aware of what is happening to fuel costs and things like that at the moment, so will their costs of delivery have gone up?

Clive Chesser: They do not pay the costs of delivery in that model.

Q68 **Paul Howell:** Therefore, you have not changed your pricing model to them because of that, so you are having to absorb that.

Clive Chesser: That is correct. Just to be really clear, there is no pricing to them. A company comes in and operates the business, takes a share of the overall turnover, and takes on all of the liability of staff. It employs a team, trains the team, and runs the service locally.

Q69 **Paul Howell:** Clearly, at the end of the day, there is a commercial agreement there, which means a percentage of the turnover is going into different places. You would have the opportunity, I guess, to try to renegotiate that at some point in time, if you felt that your cost base was changing.

Clive Chesser: In theory, we could renegotiate the deal. Our objective is to make these pubs successful. We want them to stay and to be successful. It is a very difficult environment right now for all of us, and we are having to absorb a huge amount of cost inflation.

Paul Howell: I am just trying to understand where you are pushing and where you are not, at this point in time. Thank you very much.

Ed Hancock: We are probably the biggest operator of turnover share partnerships, so we have over 600 within Marston’s of our 900. We believe in the model and we have a model that suits every type of pub, with different shares of food and so on.

I would echo the statements that my colleagues have made. The real benefit that I find from a turnover share model is that our conversations with our publicans and people serving guests move to sales rather than the price of rent and beer. We are able to work in partnership with them to build their businesses, looking at serving their local communities. I would add that all of our turnover share agreements are in the code.

Q70 **Paul Howell:** You talked quite positively there, so do you see that as something that will continue to develop and increase in your space?

Ed Hancock: As ever, we are judged by the market. At the moment, I am getting more applications for turnover share pubs than I am for tenanted and leased pubs. Does that mean that I am not supportive of the tenanted and leased model? No, but we have to look at all of our partners, look at the correct model, and see where we can generate best returns for us and our publicans.

Q71 **Paul Howell:** As other witnesses have already said, different models suit different people, and I was trying to understand the demand pull.

Ed Hancock: The demand pull at the moment is certainly more turnover share, in my experience.

Nick Light: I would agree with everything that has just been said. We have over 400 of these agreements. Our predominant estate is still leased and tenanted—2,700, as I said earlier. I do think that it will grow, because it is popular and successful. We are seeing very strong performance from that particular model. Operators like it, because they are immune from the cost inflation, as we talked about earlier.

Our particular model has won at least three industry awards for the contributions to the community in terms of employment, investment and charity fundraising et cetera. These are dynamic models that are doing well, so they will grow.

Chair: That brings this panel to an end, so thank you to all four of you for your contributions this morning. We will be in touch about the follow-up questions and evidence.