

30 May 2022

Report into BBPA Benchmarking 2021

Background:

The BBPA released “Running a pub - A guide to costs for tied tenants and lessees 2022” in late May 2022. It is the sixth edition of their benchmarking guides, the first edition published in 2015 with no guides produced in 2020 and 2021 as a consequence of the Coronavirus pandemic.

At The Licensees Association, following consultation with our members, we have a number of concerns relating to the current guide which we would like to see answered. This report does not seek to completely undermine the benchmarking, however, considering the importance of the guide and its use by our members and others in rent reviews we do feel that the opportunity should be afforded to the BBPA to clarify certain issues we will raise to ensure that the guide is robust and where we feel it is wanting to allow the BBPA to amend or warn caution.

Methodology:

The guide states:

The BBPA guide has been compiled from data supplied by BBPA members in relation to short term tenancies (usually 3-5 years) and longer-term leases (the latter tend to be fully repairing and insuring).

We have a number of concerns here which would like clarification on:

- ➡ Short-term tenancies and longer term leases have very different levels in certain areas of operating costs. The best example of this, though not the only one, will be repairs and renewals. In most tenancies this cost is not one attributed to the tenant whereas for leaseholders it is a cost they are responsible for. Looking at a weighted average without differentiating between tenancies and leaseholds will give a misleading figure. Similar concerns, to a greater or lesser degree, can be raised over Insurance, Marketing/Promotion/Telephone, Professional Fees, Equipment Hire and Interest on Capital.
- ➡ Without knowing the number of tenancy and leasehold agreements the figures are based on leaves much of the operating costs open to question.

The tables represent a composite of accounts presented to tenants by companies based on their experience across their entire estate, or a representative sample of their estate, and individual pub accounts that have been made available to their pub companies.

- ➡ As the composite accounts upon which the tables rely upon are provided solely by Pub Companies, what measures have the BBPA taken to ensure that the information they have been provided with is robust and avoids the charge that there is an element of “marking ones homework” being levied. It cannot be ignored that these benchmarking figures are based solely upon figures provided by the landlord and so care must be taken in ensuring there is no selective reporting. We are not drawing into question the reporting of the information provided, but that we have no understanding of any measures that the BBPA has taken to ensure the legitimacy of the numbers upon which they have drawn.
- ➡ In stating that “*The tables represent a composite of accounts presented to tenants by companies based on their experience across their entire estate*” are these rent assessments and not actual accounts? What is the basis of “their experience”. If this is numbers compiled by pub companies as either rent proposals or rent assessment proposals then it renders the guidance subjective and cannot be relied on as factual. Indeed these are produced to maximise the return for the pub company and should not be considered. It would, however explain some of the more unusual examples which we will highlight later.
- ➡ Has the guide and the data upon which it relies been subjected to any independent review?

Further Concerns:

Beyond our concerns regarding methodology we have other concerns which we believe deserve investigation and explanation:

- ➡ In reporting on the weighted average of Pay TV (Sky, BT Sport etc.) we feel that the weighted average creates a misleading figure. In the vast majority of pubs this is either an “on” or “off” charge and in creating a weighted average the % cost of turnover reported is skewed. We believe that the simple adjustment of weighted average where costs are incurred would create a more accurate number.
- ➡ Having consulted our membership we are concerned that the reported margin (GP%) has over time, in all but one categories, grown:

GP% over time

	2015	2016	2017	2018	2019	2021
Community 4k	51.0%	51.5%	54.4%	51.3%	52.0%	52.5%
Community 5k	52.0%	52.0%	54.2%	51.7%	53.0%	53.6%
Community 8k	52.0%	52.0%	56.3%	51.8%	53.1%	54.6%
Community 15k			52.2%	52.4%	53.9%	57.1%
Rural 5K	57.4%	57.0%	58.5%	56.7%	56.5%	55.3%
Rural 8K	57.7%	58.0%	59.7%	57.1%	58.1%	58.7%
Town 10k 70:30	54.8%	55.0%	57.4%	54.6%	57.4%	57.4%
Town 10k 30:70	60.4%	59.0%	58.3%	60.1%	61.2%	61.3%
Town 15K 30:71				60.4%	61.7%	62.0%

- ➡ When consulting with our members we have found no one who has seen their operating gross margin grow. All who commented have said their margins have fallen over time. We believe that the income figures need further investigation to understand how the BBPA numbers appear to be at odds with the experience of our members. Again this may be explained by the use of “*composite of accounts presented to tenants by companies*” reinforcing our concerns as noted earlier.
- ➡ In a similar vein to the concerns over gross profit margins our members have expressed surprise over the “wage and salaries” costs. Whilst it’s noted there has been an increase recognised within the reporting, this does not mirror the increases reported by our members. The experience of those who have contacted us believe that at a minimum they are out by a factor of at least 2% points too low. As above this may be explained by the use of “*composite of accounts presented to tenants by companies*” again reinforcing our concerns.
- ➡ We recognise that the figures are based on numbers from 2021. What account has been taken of lower VAT rates on food in 2021? Was any instruction made to pub companies in how to account for this in how they presented their figures to the BBPA. If so can this be made public to help reinforce the validity of the numbers?
- ➡ We have concerns about some of the figures reported which look like they are possibly made up. We recognise this will not be the fault of the BBPA but a consequence of the figures they are provided with. Again this could be a consequence of the use of “*composite of accounts presented to tenants by companies*”.
- ➡ The best example of this is shown in the Minimum operating costs of the Rural Character (c50:50, drink food) as shown on page 17 of the report which we have reproduced below. The statistical chances of an actual set of real figures actually having exactly £4k for both drink and food alongside exact margins of 50% and 60% and with all expenses ending with either a 0 or a 5 we believe to be extremely unlikely and calls into question the validity of this set of numbers. Again, is this a consequence of the use of “*composite of accounts presented to tenants by companies*”
- ➡ This example is not in isolation with similar questions able of being asked of minimum operating costs of the “Community Wet Led - 4K” pub and the Community Wet Led - £15k” pub.



	COMMUNITY WET-LED LOCAL (c90:10, drink:food) c£15,000/week		RURAL CHARACTER (c50:50, drink:food) c£5,000/week		RURAL CHARACTER (c50:50, drink:food) c£8,000/week	
	Min OC	Max OC	Min OC	Max OC	Min OC	Max OC
All figures below ex. VAT						
Total Drinks Sales	13,700	11,255	1,881	2,953	4,000	6,142
Total Food Sales	1,550	8,029	1,443	3,525	4,000	5,827
Total Sales	15,250	19,284	3,324	6,478	8,000	11,969
	-	-	-	-	-	-
Cost of drinks	6,850	4,854	885	1,995	2,000	2,477
Cost of food	620	3,176	540	1,586	1,600	2,153
Total Cost	7,470	8,030	1,425	3,581	3,600	4,629
	-	-	-	-	-	-
Gross Profit	7,780	11,253	1,898	2,897	4,400	7,340
	-	-	-	-	-	-
Wages & Salaries	2,750	5,630	750	1,550	1,500	3,497
Rates	245	416	17	325	450	403
Utilities (see note on page 4)	650	662	184	444	200	455
Repairs & Renewals	160	146	91	56	150	173
Insurance	71	37	46	49	80	73
Marketing/Promotion/Telephone	155	211	45	60	75	119
Consumables	87	133	25	29	75	29
Waste Disposal/Cleaning/Hygiene	80	186	32	63	120	97
Professional fees	80	100	64	40	60	124
Bank charges	70	188	37	55	35	94
Equipment Hire etc	89	20	2	10	30	38
Interest on capital	-	230	-	-	30	87
Pay TV (Sky, BT Sport etc.)	255	91	-	-	-	59
Live Music	125	-	-	-	-	45
Other Costs	140	235	-	64	75	180
Total Operating Costs	4,957	8,285	1,292	2,745	2,880	5,474
	-	-	-	-	-	-
Divisible Balance	2,823	2,969	606	153	1,520	1,866
Gaming machine income	25	78	-	-	-	23

£8k Rural 50:50 %wet-1

	Min OC	
Total Drink Sales	4000	
Total Food Sales	4000	
Total Sales	8000	
		GP%
Cost of Drinks	2000	50.0%
Cost of Food	1600	60.0%
Total Cost	3600	55.0%
Wages & salaries	1500	18.8%
Rates	450	5.6%
Utilities (see note on page 4)	200	2.5%
Repairs & renewals	150	1.9%
Insurance	80	1.0%
Marketing/Promotion/Telephone	75	0.9%
Consumables	75	0.9%
Waste Disposal/Cleaning/Hygiene	120	1.5%
Professional fees	60	0.8%
Bank charges	35	0.4%
Equipment hire etc	30	0.4%
Interest on capital	30	0.4%
Pay TV (Sky, BT Sport etc.)	0	0.0%
Live music	0	0.0%
Other costs	75	0.9%
Total Operating Costs	2880	36.0%
Divisible Balance	1520	19.0%

Summary:

We have some serious concerns about the benchmarking report produced by the BBPA. It is not our intention to completely undermine the guide, it is just that, a guide. But as the guide is used extensively we do believe that the guide should be as representative as is possible.

We would greatly appreciate the BBPA addressing each of the elements we have raised and are willing to work with the BBPA to ensure the numbers are as robust and valid as is possible, whilst appreciating that they are based on a very unusual year and noting the guides warning regarding utility costs, we believe that at present the figures leave lots of questions unanswered and consequently, until these questions are answered the validity can and will be called into question.