

TIP 130 – Licensed Trade

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Warning

These notes are not intended to provide an exhaustive or definitive picture. Any tactical tips must be treated with a 'health warning' as the BIU cannot test or validate theories or ideas submitted to it, but merely supplies information to be used with **common sense and discretion**.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Links to the Internet

There are a number of **references to Internet** addresses scattered throughout this note. These are not linked and need to be accessed separately from this TIP.

Reference to commercial organisations and products

This TIP may contain references to commercial organisations, together with reference to specific products or services. Please note these are included for example purposes only and are not endorsements of the organisations, products and services.

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General

This Tactical and Information Package (TIP) provides information relating to Free Houses, Tenanted Outlets and Leased Licensed Premises run by independent licensees, however references are also made to Managed Houses that are owned and staffed by major brewers.

Throughout the TIP terms such as licensed premises, public houses, pubs, licensees, publicans and landlords will be used.

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Introduction

Public houses are social outlets where people meet; they have always played an important part in the UK's social history and a key part in community life.

The Licensed trade has undergone many changes in the past years dating back to the Monopolies and Mergers Commission review in 1989.

There has been a continuing decline in the amount of beer consumed and beer sales are now reported to be falling by around 2% each year, there are currently too many outlets competing for too few customers. As a result some licensees have discounted their drinks prices but this has in turn put their margins under pressure.

Beer sales have also decreased due to cheap beers being introduced from abroad for home consumption.

There has also been a change in the type of outlets that customers prefer to use; this has resulted in fewer "traditional" drinking pubs but more family type outlets, restaurant pubs and designer bar/bistros. 'Gastropubs' which appeal to young professionals and the ever popular "Café Bars" also occupy a large part of this sector.

The closure of many local and regional breweries has also resulted in the closure of smaller pubs that were unable to compete with the major chains.

There have been mergers, take-overs and acquisitions in the brewing industry and non-brewing pub owning companies have been introduced.

Some pub owning companies offered inexperienced licensees low rents for an initial period and then increased them substantially which put tenants under financial pressure.

Free Houses still exist, mainly due to the fact that they are free of tie and are able to barter for the best available deals and discounts from suppliers and there are still some Free Houses where the licensee brews on the premises.

Many drinkers have moved from traditional beers to draught lager and strong bottled lagers and cider. Sales of bottles of spirit based mixables that have held the market for the last 5 years are now reported to be declining, while sales of soft "energy" drinks and bottled waters are becoming increasingly popular.

Good marketing techniques and the impact of women over the age of 25's changing drinking habits has resulted in the increase of wine sales in the UK.

There is a growing tendency for people to purchase alcohol from supermarkets (creating price wars among the multiples) for home consumption at much cheaper prices than can be obtained in licensed outlets and this has had a major impact on licensees and is mirrored in the proliferation of Off-licenses. Convenience stores also offer cheaper alcohol and 2 for the price of 1 offer to impulse buyers.

The 'widget' and its ability to produce the affect of a traditional beer product, has added to the appeal of canned drinks for home consumption.

The extension of licensing hours introduced in the new Licensing Act in 2005 may make it even harder for the smaller outlets to compete against the major players in the sector.

There have been various initiatives and approaches to prevent irresponsible drinking and late night disorder within the sector

However, the main factor to have affected the trade has been the increasing importance of food sales. In the last few years many licensees have reduced their dependency on their beer sales and now concentrate on the catering side of the business which has been reported as being the most successful in boosting turnover. However, they are still likely to meet competition from rivals such as local restaurants and takeaways in the area.

Facts & Figures 2000 to 2006

<p>2000</p>	<p>Brewers were not allowed to own so many outlets following the introduction of the Beer Orders.</p> <p>The increasing importance of the sale of food in pubs from the beginning of the 2000's meant that smaller pubs with less opportunity to compete on the catering side of the business were forced to close.</p>
<p>2001</p>	<p>Premium bottled drinks became popular along with nitrokeg beers.</p> <p>2001 saw the emergence of non-brewer pub operators.</p>
<p>2002</p>	<p>Pub owning companies purchased derelict buildings and unused banks in major cities and converted them into licensed premises which served food on a large scale throughout the day and in the evenings.</p>
<p>2003</p>	<p>Many of the large pub owning companies transferred their managed houses to tenancies and then put their financial resources into their most profitable outlets and created restaurant pubs, themed pubs and designer bars serving all day food.</p> <p>Landlords introduced Quiz nights and Karaoke to try to encourage mid-week trade away from other leisure outlets.</p>
<p>2004</p>	<p>There were major ownership changes from Tenancies which previously predominated, to Pub Companies who lease premises to individual licensees.</p> <p>The alcohol Harm Reduction Strategy was introduced which urged manufacturers and retailers of alcohol to help reduce binge drinking.</p>
<p>2005</p>	<p>There was a considerable increase in lager sales reported in the UK.</p> <p>November 2005 saw the introduction of the new licensing laws, to date there is no published information relating to its success or failure.</p> <p>However, sources suggest that 10 months on from the introduction of the new laws in Scotland, the demise of the 11pm closing has lead to positive improvements and their "Carry-Out" business is booming.</p> <p>Licensees began moving away from encouraging "session drinking" towards a more civilised approach of providing all day bar food and restaurant facilities.</p>
<p>2006</p>	<p>Licensed premises in Scotland became entirely non-smoking from March 2006.</p> <p>The World Cup 2006 boosted sales in sports bars/pubs.</p> <p>The good weather during July increased cold and alcoholic drink sales, in turn often boosting pub food sales.</p>

Pub Numbers

There are approximately 58,000 pubs in the UK.

Total Pubs in the UK (Nov 2006):

England & Wales	51,479
Scotland	5,150
Northern Ireland	1,568
Total	58,197

Broken down into:

Brewer owned - Managed Houses	2,700
Brewer owned - Tenanted/Leased	6,700
Pub company owned - Managed Houses	7,500
Pub company owned - Tenanted/Leased	23,500
Other pubs (independent)	17,800

- In addition there are approximately 63,000 other outlets with an on-licence (hotels, wine bars, restaurants etc.)
- 27,000 licensed and registered clubs
- 53,000 off-licences.

Source: British Beer & Pub Association

The Future

The implementation of new licensing laws introduced in November 2005, will impact on this sector from 2006/2007 onwards. Licensees will have had the additional cost of applying for the licences and extra staff will still be required to cover the extended opening hours.

Those in the hospitality sectors are expected to experience challenging trading conditions and those who do not broaden their customer base or introduce new products into their business or are unable to create a place for themselves in a niche market, are likely to go out of business in the future.

Industry sources suggest that the number of UK public houses is likely to continue declining, especially the smaller community outlets where food sales are not encouraged. Future turnover is likely to be achieved mainly by pub chains who have undertaken refurbishment.

Newly refurbished gastropubs owned by major brewers and located in prime positions are likely to flourish as they are able to invest in improvements and therefore attract new custom.

Those offering speciality food types such as seafood evenings and fusion cuisine are also likely to attract new trade, while smaller outlets with fewer resources to improve facilities are unlikely to be able to compete or are likely to experience a slower increase in turnover.

Where the licensees' predominant income is from the sale of beer and where food sales are minimal, it could force some traders to declare bankrupt in order to remove themselves from Tenancy Agreement obligations.

The smoking ban that is to be introduced in restaurants and food serving pubs as well as in the bar areas of non-food outlets will either boost or reduce attendances, depending on the nature of the customer base. Many licensees have already prepared for the change by providing non-smoking food areas and by discouraging customers from smoking at the bar. Others are preparing garden areas with seating and patio heaters for smokers to use and some are ordering caravans, old buses and are building covered outside accommodation in order to retain their customers who will still want to smoke. Suppliers of large parasols with heaters and lights are likely to see an increase in trade from licensees, some are also supplying wall mounted covered canopies.

As with other service sectors increases in Minimum Wages and extension of holiday pay and sick leave rights to part-time as well as full time employees are also ongoing extra costs for licensees.

A Duty Stamp scheme was phased in throughout the UK during 2006 and applied to bottles of spirits, wine or made wine with an alcohol by volume strength of 30% or more (containing over 35cl) which is destined for sale on the UK market.

From January 2007 they should have the Duty Stamp on them and it will be an offence for licensees to sell them without.

The scheme is to stamp out alcohol fraud which costs in the region of £250 million in duty each year, the stamp is to prove that duty has been paid or will be paid on the product.

Licenseses

Today's professional licensee has to have the skills of a personnel manager, a catering manager, a finance director and an operations executive in order to maximise the potential of the business.

Regardless of the type of outlet the linchpin of any pub is its landlord, who brings the skills and business acumen necessary for the success of the business.

Forward thinking and the ability to be able to create innovative ways to make the business continually grow are essential.

It is common for licensees to enter the trade later in life and as they are likely to have worked in industries completely unrelated to the licensed sector, they will need to acquire most of the following skills:

- to understand the financial side of the business and influence profitability (basic knowledge of VAT, Tax and PAYE)
- to offer first class customer service and to be able to relate to customers and understand and meet their requirements
- create a hospitable environment
- have sufficient marketing skills to attract new customers
- cellar and catering management and a basic knowledge of wine
- management skills to recruit, retain and inspire staff
- a knowledge of all current legislation and regulations.

There are a number of training courses available covering the key areas of running a pub with often the Accredited Licensee Certificates and Basic Food Hygiene Certificates being attained.

General duties carried out daily may include: cellar management, stock management, preparing food, obtaining supplies from cash & carry outlets, administration and banking.

In fact all work that is usually undertaken by staff including cleaning may have to be covered by the licensee on some occasions.

Income

Licensees depend primarily on the sale of alcohol, wines and spirits and soft drinks for their main income, however in the past few years' the sale of food as accounted for a considerable part of the turnover of the business.

In larger outlets where the emphasis is on food and high standards of cuisine are offered, income from the sale of food may account for up to 50% of the total income.

You should however, consider each outlet individually as the total sales accounted for by these two main activities will depend on the nature of the business and customer profile.

Additional Income

There is also ample opportunity for additional and subsidiary income to be derived in this sector, the following lists sources that you are most likely to encounter:

- commission from all types of vending machines – juke boxes and amusement machines
- wine and food items for functions may be bought on separate invoices from those entered in the records
- brewing on the premises (Free Houses)
- marquees set up in the garden area for parties
- outsourcing the catering side of the business
- race evenings – entrance fee to function room and charges for each horse
- live entertainment/jazz sessions may include an entrance fee
- purchasing a bouncy castle for special events and then renting to other licensees
- rental income on private residence or rental from a holiday home abroad
- car boot sale held in car park – cash payments for use of space
- football match day car parking charges if close to a football ground.

Some licensees may also achieve additional income by selling a half pint of beer, lager, cider or stout for more than the price of half of a pint. For example a pint may cost £2 but a half may cost £1.10 or £1.15.

The following types of additional income are covered in a little more detail:

Agent to Bookmakers

In small towns and villages where there are no bookmaker's shops, the local licensee may choose to act as an agent to a bookmaker.

If your enquiry relates to premises in a rural area it may be worth mentioning at interview stage, as commission received would have to be considered. Where a publican is acting as an agent, this activity will need to be explored to determine any liability to betting duty. Reference 451 – General Betting Duty should be made.

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Entertainment

Some may provide entertainment at weekends, Bank Holidays and at Christmas and New Year. This may vary from a professional act, booked through an agent to a solo artist being paid cash in hand for a one-night appearance.

You should establish the exact types of entertainment offered and the method of recording payments to such acts.

Function Rooms

You should establish how cancellation fees and deposits are dealt with for the room hire of function rooms.

Some licensees may provide free room hire as long as there are a set number of guests (as this will ensure good wet sales) and providing they do the catering.

Outside Bars

Extra equipment will be required if outside bars are undertaken for example beer and lager dispense units, coolers, trestle tables, glasses and optics.

Check sales invoices for bar equipment, in particular for glassware, it may be an indication that "Outside Bars" are being undertaken if an excessive amount of glasses are purchased at any one time.

Some licensees only sell bottled and canned drinks and serve spirits from measured stainless steel measures and use plastic glasses. This cuts down on the expense of added equipment and the licensee can gain substantial additional income from this practice.

Outside bars are becoming less popular now, as specialist outside catering companies, who have the appropriate equipment are capturing the market.

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Beer Festivals

Some licensees will arrange an annual "Beer Festival", where a wide range of beers from all parts of the country will be sold. The beers are often more expensive than those regularly offered and many customers will sample these in half pint measures to enable them to try most of the brews. They often purchase more than they would normally do!

Beer festivals are often arranged for various Bank Holidays during the year, with October also being a popular month.

Some licensees will provide a free barbecue to encourage both regular and new trade to purchase the beer selection and hopefully establish new customers.

Tenanted Outlets

Tenanted premises are owned by a brewer or by a non-brewing pub operator.

The tenant will hold the licence for the premises and run the business on a self employed basis; they will set their own retail prices and retain the profits from the sales.

As with all businesses tenants are responsible for paying the business rates, water rates, gas and electricity and other utilities.

The tenant will pay the bar, restaurant staff and cleaners wages.

When a new tenant takes over a pub the existing staff must be treated in accordance with their rights under transfer of undertakings legislation.

A tenant may have more than one tenancy and in more than one area.

Tenancy Agreements

The following factors relating to Tenancy Agreements have been researched by comparing three different brewery tenancy agreements.

A Tenancy Agreement is an agreement between persons who rent a brewery owned outlet and operate the business as a self employed licensee, there are several types of Tenancy Agreements.

There is the "Easy Start Agreement" which is usually offered if the outlet is small and less complex to operate. This type of agreement is beneficial to licensees who are new to the trade and who have restricted access to capital. This involves lower in-going costs that are restricted to deposit, stock, glassware and administration fees. With this agreement tenants are contracted out of the Landlord and Tenant Act and only have to give one months notice if they decide that the licensed trade is not for them.

Others may offer an "Introductory Agreement" of between 1 and 3 years duration with the opportunity to leave at various stated dates throughout this period; these are often undertaken prior to committing to a full tenancy or to a lease. A six month notice period is attached to these agreements and inventory costs are usually negotiable, a deposit, stock, glassware and administration fees are still applicable.

Most licensees prefer the main 3 year Tenancy Agreement which can be renewed after the three year period. It consists of tri annual rent reviews, the rent is set at a market rent and the agreement is covered by the Landlord & Tenant Act.

In the past some breweries have calculated rents by converting all wet sales into barrelage terms, for example both 36 gallons of beer and 3 gallons of wines or spirits are the equivalent of one barrel. This practice may still be carried out where the tenancy is with a small local brewery.

Tenants are responsible for the re-decoration of the interior of the premises every three years and general repairs, any broken window panes have to be replaced and gardens and car parks have to be well maintained.

With this agreement the brewery is responsible for structural repairs and for external decoration and for carrying out alterations to the property.

Licensees are required to purchase all drink products from the brewery or from a specified supplier. Some may offer a barrelage incentive scheme where licensees benefit if they exceed their brewery set targets.

The Agreement is the means by which the brewery maintains control over products sold and to any alterations to the premises.

The initial cost for purchasing a tenancy will obviously vary according to the size and location but a Security Bond will also be required and this can range between £5,000 and £10,000. This bond is held on behalf of the tenant by the brewery and attracts annual interest.

Licensees will require capital for the purchase of fixtures and fittings, glassware and stock and a working capital for general expenses will also be required.

Payment to the brewery for goods is by direct debit and payment for rent which is charged monthly in advance is charged in the same way.

Some breweries will impose an insurance rent which is charged to the tenant to cover the company for loss of income in event of the licence being lost. It is the tenants' responsibility to insure moveable fixtures and fittings, stock and to take out general business insurances and to show proof to the brewery that these insurances are in fact in place.

The food operation and profit from food sales is the responsibility of the tenant.

The Tenancy Agreement allows the tenant to operate fruit and trivia machines commonly known as SWPs – skills with prizes and AWP – amusement with prizes.

AWPs – after the machine operator has deducted the weekly rent including VAT, the tenant usually receives 50% of the remaining money.

SWPs – the tenant receives 40%.

Income from pool tables, jukeboxes and vending machines is often solely the tenants but many breweries will stipulate the exact suppliers for all of their machines.

You should examine the agreement as each brewery has its own individual agreements.

Barrelage and Rents

Rents may still be based on the amount of beer an outlet sells, for example on annual barrelage.

Beer barrelage includes draft and bottled ales and lagers. Excluding food, beer barrelage generally accounts for well over half of the total wet trade with the balance being taken up by a combination of wines, spirits and soft drinks.

The rent is then calculated at £ rate per barrel multiplied by total barrelage plus an amount to reflect the catering carried out on the premises.

Some breweries base the rent on % of the total turnover: - i.e. between 8% and 10% of the takings.

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Leased Outlets

A Leased property is owned by a brewery or by a non-brewing operator.

Assignable leases are suited to more experienced licensees who have generated goodwill within their business and who may wish to invest their own capital into its development.

Leases usually run for a 10 year or 15 year period.

Some leases are fully assignable after 12 months of operation and include full repairing and insuring, meaning that the tenant takes on the responsibility for the whole of the property – internal and external decoration, structural repairs including roofs, walls and the foundations.

Other breweries offer leases that are assignable after three years.

When the licensee takes on a lease the following will apply:

- a three year rent review which increases (particularly where sales have increased)
- a “Tie” for beers, ciders and minerals
- machine income is often shared.

As with Tenancy Agreements, leasing arrangements vary considerably, therefore where appropriate you should review the individual lease terms and conditions.

Free Houses

A Free House is owned by the licensee and therefore they do not pay rent to a brewery, the licensee owns the property plus all fixtures and fittings and they are able to purchase alcohol from any supplier or wholesaler.

In order to secure business from Free House owners, suppliers often offer very competitive discounts which will impact on the gross profit rate of the outlet.

Free House proprietors are responsible for business expenses including staff wages, rates and utilities.

The licensee may not have enough capital to purchase the Free House outright and may approach one of the major breweries for a low interest loan. If the brewery agrees they will sign an agreement that the licensee sells that particular brewery's products for a set number of years, often ten. This is known in the trade as a supply agreement.

Low interest loans offered by breweries are less expensive than bank loans and apart from the agreed purchasing technique the licensee is free to run the Free House without other ties.

In the early 90's property prices fell and Free Houses were purchased at bargain prices by entrepreneurs who set up independent chains of Free Houses, specialising in real ale and home cooking, these later became considered as 'traditional pubs'. Prices for these outlets have now substantially increased.

Free Houses are often situated in villages and are usually run solely by the licensee and family, with minimum staff.

It would not be a viable proposition for a licensee to purchase a large city centre outlet as a Free House because the purchasing price and rates and running costs would be extremely high. City centre pubs are usually owned by the brewers themselves or by large consortiums.

Some Free House owners brew beer on the premises and use this as a marketing technique to attract customers from other areas; it can often prove to be a money-spinning addition to the pub operation, especially if the licensee uses their own surname as the name of the beer.

The mini/micro brewery will often be set up in an outhouse or in a converted barn, planning permission has to be obtained prior to set up because installing a brewery means a change in use of premises and neighbours may object to brewing aromas.

Other Free House owners may make cider on their premises; this is a far more simple process and usually highly profitable. The licensee can either buy the juice or mill and press their own apples and then simply purchase the required amount of fermentation vessels to complete the process.

Applying standard mark-up rules to free houses may be problematic since supply costs vary widely from suppliers and selling price is dependant on local competition, therefore this aspect would need to be critically reviewed.

Managed Houses

A managed house is owned by a regional brewer or non-brewing pub operator (often known as a pub retailer).

The manager is a salaried employee and may receive a bonus if sales targets set by the brewery are exceeded. The managers' partner/spouse may also be employed by the brewery but will have a separate contract of employment.

As managed houses require a significant capital investment the brewery retains both the wholesale and the retail profit to give an adequate return. They are responsible for both the internal and external maintenance and refurbishment of the property.

They set the prices and the products sold for both drinks and food.

Pub Managers attend residential training courses set up by and paid for by the brewery and occasionally courses are undertaken on site. Training covers staff management, cellar management and a general catering course, on completion a certificate is usually gained.

Trainee managers are then put into outlets alongside an experienced manager to enable them to gain hands on experience.

Managed houses are the main competitors to small Tenancies and Free Houses.

Stock Management

Stock management is an important aspect of the efficiency and profitability of a business.

The following highlight areas that should be explored with the licensee to establish the exact methods used frequency of stock checks and who within the business is responsible for them.

Stock Ordering and Storage

To manage stock effectively the licensee will need to know the popularity of stock items.

To check how many times stock turns over in a given period divide the cost of sales by the value of stock at cost. The more frequently stock is turned over in a period the more efficiently the business is being run, provided that stock does not run out.

Each licensee will have a fair idea of the pattern of trade; however allowance for fluctuation in sales at particular times of the year must be taken into consideration.

You may wish to challenge claims of high stock wastage and if the licensee works along the following guidelines high wastages should not occur:

- calculate the average sale per item per week
- decide on the optimum stock level to prevent under or over stocking
- consider "Shelf life" (but be flexible for special circumstances)
- calculate stock held at the time of placing order
- monitor the average sale figure and amend when necessary.

Beers will have to be ordered at least 2 days prior to their delivery and 24 hours settling time for cask conditioned beers is required.

The most popular soft drinks such as lemonade, colas and soda water soft are now served direct from a dispense pump in many outlets. This type of drink is known in the trade as post-mix soft drink and now dominates sales in pubs. Other soft drinks such as tonic water, bitter lemon and other similar flavours are still usually available in bottles.

Keeping stock of wines, fortified wines and spirits is comparatively simple for example spirit stocks should be kept as low as possible without the risk of running out of stock.

Vintage wines or wines which may be kept in stock for 3 months or more should be stored on their sides, this will keep the corks moist and the seal secure. However in recent years there has been increasing use of screw caps or synthetic corks, originally introduced to eliminate the wine being "corked" that is, tainted with a musty taste and also to reduce wastage.

Breweries all have their own unique way of ordering but large managed house are likely to order through direct electronic tills.

Copies of all orders should be maintained to be compared with delivery notes and final invoices.

Bulk Purchasing

Seasonal variations in prices can lead to the purchase of bulk supplies when the price is favourable, with gaps resulting when the price is high.

Suppliers may give substantial discounts for bulk purchasing; these may encourage licensees to hold larger stocks of supplies than they actually require for both alcohol and food items.

Whilst it may be appropriate to order larger quantities if discounts apply and if there is likely to be a price increase on a particular product, cash control has to be considered. Many will however still take advantage of unexpectedly favourable trading conditions.

Volume Forecasting

It is not always possible to pass on cost increases to customers therefore cost control is very important.

To ensure that costs are kept to a minimum the owner will need to estimate the demand for a particular item in order to eliminate over or under ordering supplies.

Over-ordering will lead to wastage due to sell by dates expiring, while under ordering will lead to customer dissatisfaction and ultimately loss of business.

Forecast volumes should be based on sales in previous weeks and the licensees' personal experience will allow for unpredicted fluctuations.

Volume forecasting is particularly important where items are perishable or where they have a short shelf life, such as food and drinks for the bars and restaurant areas.

Stock Rotation

All alcohol will have a "best used by" date or "sell by date" stamped on by the brewers or suppliers and it is important that stock is rotated to avoid sell by dates being exceeded and loss and wastage occurring.

Cask and Keg beers are delivered with a date stamp on them showing when they were filled at the brewery. Brewers will allow credit in some circumstances for unsaleable beer but will not allow this if the product is past its sell by date.

Cask conditioned beers (real ales) should ideally not remain on sale for more than 3 days. However it is worth noting that in some outlets this may vary between 3 and 7 days for some beers depending on the type and make up.

If licensees claims high wastage due to out of date beer you may want to ask why smaller containers of specific brews are not ordered where consumer purchases are slow.

Keg beers have a longer life but they will over carbonate if left too long on dispense.

Stocktaking

Stocktaking can be very time consuming, but is an essential step towards maintaining profitability.

It is usually carried out on a quarterly basis, however where a licensee is experiencing extreme stock problems it may be necessary to take stock monthly.

Where the business is run solely by the proprietor a stock check should still be carried out as poor stock control or stock losses will be mirrored in a poor gross profit rate.

The stocktake is usually undertaken while the premises are closed and no stock should be moved during the count. If any deliveries are received at this time, the stocktaker must be made aware. All invoices and delivery notes will have to be supplied to the stocktaker.

A professional stocktaker will count all stock on hand and then record sales and delivery of goods to enable them to calculate the amount of stock used during the period.

They use key measuring equipment (hydrometers) for checking the proof of spirits and a refractometer for testing dilution rates in "Post Mix Drinks".

As the selling price is known for each item, and allowing for wastage, promotions and any other adjustments, it is easy to calculate the amount of takings that should have been received through the tills.

Where a professional stocktaker has been engaged a stock report should exist.

The physical count of stock and the production of a final report are the basis of a stock take, but experienced stocktakers will also usually be up to date with current issues affecting the licensed trade and will cascade this to licensees. For example licensees frequently require information relating to new legislation, new product ranges and advice on pricing structure and on how to make their business more profitable.

The importance of the work of an experienced stocktaker and the value of an accurate stock take cannot be underestimated.

There are stock counters who count stock on premises but have very little knowledge of the trade and there are also cowboy stocktakers who have little or no knowledge.

Licensees Own Stocktaking

Where licensees undertake their own stocktake a computerised package may be used, however if the landlord counts the stock incorrectly in any way, then a meaningless set of figures will be created.

A stock report should still be maintained for accounting purposes.

There is no obligation for a licensee to carry out regular stocktakes but it makes good business sense.

In the course of an enquiry you would expect to have some evidence to back up the explanations given for poor trading results relating to stock or otherwise.

One of the common explanations is that the licensee will blame inexperienced staff for poor stock results, but they should be correctly trained when they are initially employed, therefore you will need to consider how plausible this is.

Managed House Stocktaking

All Breweries carry out strict stock takes on their managed houses and discrepancies have to be kept to a minimum.

Some managers may be asked to pay a deposit as a security bond against stock losses. The Brewery will then pay the manager interest annually on this bond, which will be returned to the manager at the end of their employment if all stocks are in order.

In most managed outlets the EPOS till systems will be in operation and stocktaking is then very simple.

Stock Report

A stock report provides an evaluation of:

- cost and retail value of sales in any period
- gross profit achieved on each stock line
- stock value held for each stock line
- number of day's stock held, based on the correct period's sales
- same day results.

When compiling a stocktaking report the stocktaker considers many of the same factors that you would when undertaking a business economic exercise.

Allowances will have to be made for pipe cleaning, staff drinks and wastage.

Cellar Management

Simple rules and routines in maintaining a high standard of cellar management have to be followed by the licensee 365 days a year, because consistency and beer quality are the keys to success.

Beers served in fine condition will give the licensee a reputation for excellence and this will be passed to all other activities in the establishment.

Cellar and dispense equipment that is immaculately clean and well organised will guarantee that the quality of the beer is consistent at all times.

Keeping beer at a consistent temperature is fundamental in maintaining quality; the recommended cellar temperature range is 15.5C. Cask conditioned beers that are kept at lower temperatures will gain a "chill haze" and will result in loss of condition, while beer kept above this temperature will be affected by excessive fobbing. Cellar cooling systems and fans will help to keep constant temperatures in cellars at ground level. The deeper under ground the cellar is the cooler the beer will be.

Casks placed on thrawls should not be situated where they are likely to be disturbed and clear spaces should be allowed for cleaning purposes as beer is a "live" product and is susceptible to infection from airborne bacteria.

Where CO2 Cylinders are used they should be stored lying down or fixed securely to a wall.

Replenishing Stock

Replenishing stock is commonly known as "Bottling Up" and is the process of bringing bottles from the bottle store to fill shelves in the bar area, this is usually carried out on a daily basis.

A stock book should be kept in the bottle store and when cases are removed a note should be made of stock used. When the brewery make a delivery all new stock should be entered into the book and a running total maintained. However, the licensee should retain overall responsibility for the maintenance of the stock control records.

Replenishing stock is a time consuming job which is normally undertaken outside of opening hours, but in some outlets bar staff will be expected to fill shelves at the end of the evening shift. Alternatively casual staff may be employed, possibly teenagers or semi-retired people who are likely to be paid cash in hand and not be subject to the necessary deductions under PAYE.

Pipe Cleaning

Pipes should be cleaned at least once every week to eliminate the yeast build up on the inside of the plastic piping which carries the beer from the barrel to the point of sale.

The manual method of pipe cleaning involves disconnecting lines and barrels/kegs and fitting cleaning apparatus to each line, soaking in cleaning fluids, rinsing and re-connection. It is a very time consuming practice that is often carried out by the licensee when the business is closed, but is still used in many smaller outlets.

There will be a loss of beer when cleaning pipes and the length of run from cellar to the point of dispense, the number of beer lines, diameter of the beer lines and the percentage of cask-conditioned ale will affect the losses.

A point worthy of consideration is that double taps are often used to enable two lines in separate bars to be served from one barrel.

The maximum total allowance for loss of beer when cleaning the pipes should be double the volume of the pipe and the connecting pipes are usually 5/8 bore.

For example 20 beer lines with an average of 2 pints in each line being cleaned only once each week will result in wastage of approximately 40 pints of beer per week.

In some cases actual figures are maintained but, if not the following may act as a guide:

5/8"	pipng	one pint per	9.5ft
1/2"	pipng	one pint per	14.5ft
3/8"	pipng	one pint per	27.5ft
1/4"	pipng	one pint per	59.0ft
3/13"	pipng	one pint per	111.0ft
1/8"	pipng	one pint per	250.0ft

Ring Main System

The Ring Main System for pipe cleaning is a relatively new idea; it is an easy to use automatic beer line cleaning systems that virtually eliminates beer loss.

The unit is plumbed into its own dedicated ring-main which allows it to pump cleaning solution and water through the lines. During the cleaning cycle, the system empties through a drainage system under the bar servery.

This type of line cleaning can be used during normal trading hours by simply taking the specific product off sale until the cleaning is completed.

It will therefore be important to clarify the precise pipe cleaning method used by individual licensees when considering the amount of wastage in any business economics exercise.

Types of Beers and Containers

The supply of beer to all outlets is dominated by the major brewers rather than by independent wholesalers. For example brewers produce and sell beer to the public through their own managed houses and to the trade via their tenanted houses, free trade and to non- brewing pub chains.

Tenants who have Tied agreements are likely to pay significantly more per barrel of beer than free trade operators.

Cask Conditioned Beer

In traditional breweries "Finings" are added to the beer, they are a glutinous substance made from the swim bladders of fish. Finings sink through the beer and remain in the sediment, attracting particles of yeast, until the beer is clear. This natural process ensures an attractive product without affecting the flavour or the need to filter. In more modern plants other brewing practices may be used.

When cask conditioned beer is delivered it is positioned on a thrawl with the vent hole uppermost. A tap is inserted into the "tap hole" and is partially blocked by a porous peg. The cask is then left to settle for between 24 to 48 hours, during which time the sediment from the beer will sink to the bottom of the cask.

After 48 hours a non-porous peg blocks the vent hole (This system is known as venting and pegging) occasionally the peg is removed to release the build up of pressure.

When the beer is dispensed, the vent hole remains open to allow air to enter into the barrel, but when it is not in use the barrel is re-pegged to eliminate bacteria.

A "Dipstick" is used to measure the contents of the barrel and as the beer is sold the cask is tilted on the thrawl with wooden chocks.

It is bad practice for licensees to return drip tray contents to a barrel, however it does happen and it will be difficult to prove and almost impossible to establish the quantities.

It is however legal to filter beer back into a cask providing that the beer has originated from that particular cask and that it is clean beer. Mixing or diluting beers is an offence that could lead to a licensee losing their licence.

Tanker Beer

Tanker beer is more common in managed houses and outlets with a large turnover of beer sales, while small to medium outlets will still use metal or wooden barrels.

Tanker Beer or Bright Beer as it is also known is driven along pipes by air or gas pressure known as 'Top Pressure'.

Bright Beer is filtered and may be pasteurised; it is chilled and pumped into tankers. It is then delivered and pumped into the cellar tanks which usually hold 180 gallons of beer and are then pressurised with carbon dioxide gas or compressed air.

This type of beer does not have to stand, it can be dispensed immediately.

Measuring devices on the outside of the tank confirm the amount of beer delivered, licensees will then check and confirm the amount delivered and sign for the delivery.

Most cellar tanks do not require cleaning as the beer is held in a large plastic bag within the tank and the bag is replaced at each delivery.

Keg Beer

Keg beers are chilled, filtered and pasteurised at the brewery and then put into sealed metal containers known as a kegs.

The kegs are made out of aluminium or stainless steel to precise capacities and beers are dispensed by gas pressure through a line attached to a head which is then attached to the keg. If the gas pressure is too high wastage will occur due to frothing.

Keg beers have a longer shelf life and can be dispensed immediately on arrival at the licensed premises. This type of beer usually passes through a cooler under the bar and is served very cold.

Beer, Cider, Lager and Stouts are usually delivered in kegs and it is impossible for licensees to filter back into the kegs due to them being pressurised at the brewery.

Nitro Keg Beers

Beers such as “Guinness” and the so-called nitrokeg beers known as “Creamflow” and “Smoothflow” do not use carbon dioxide alone; they use a mix of nitrogen gas and carbon dioxide which produces a creamier and less fizzy beer with a distinctive creamy head.

Containers used for beer

Licensees may commonly refer to “barrels of beer” when in fact they may not be actual barrels. A barrel contains 36 gallons, while larger and smaller containers will hold the following amounts:

Container	Imperial	Metric
Hogshead	54 gallons	245.4 L
Barrel (BLR)	36 gallons	163.6 L
Kilderkin (KIL)	18 gallons	81.7 L
Firkin (FIR)	09 gallons	40.9 L
Keg	22 gallons	100.0 L
Keg	11 gallons	50.0L

Drinks

In addition to the sale of beers, lagers, cider and stouts, there are also wines, spirits and specialist drinks.

The profit potential on spirits easily outstrips any other drinks category especially when used for cocktail combinations and where mixers are added.

Some outlets use less popular branded spirits in addition to the branded ones, a point worthy of clarification as they will be purchased cheaper and this will affect your business economics exercise if they are all grouped together under spirits.

Fortified wines and vermouths and a selection of liqueurs may also be stocked but the turnover is usually slower on these products.

New product ranges are frequently being introduced to the trade such as, speciality beers and bottled spirit mixers/alcopops. These are particularly popular in town centre bars as they appeal to younger customers who are not particularly price conscious, allowing many licensees to charge a premium price for them.

Most major brewers try to target a specific customer base when they introduce new products, for example premium British lagers which have quality ingredients are usually 5% ABV and are produced to appeal to younger customers. Bottled premium white beer is currently being introduced and is being targeted at both the male and female market and low carbohydrate bottled beer with ABV of 4.7% and only 1.65 carbohydrates and 85 calories is aimed at the more figure conscious.

When a new range is first introduced the licensee may be offered 2 free cases if they purchase 10 cases of the commodity. This is known in the trade as "Free of Charge Stock". However, if it does not become a popular sale, the licensee may have to sell the bottles at half price in order to clear within the sell by date, which then defeats the object of the promotion.

A further new concept is large jugs known as "Pitchers" filled with cocktails. Beer, Lager and Cider may also be served this way; they may be purchased for individual consumption or for sharing. The price of a Pitcher is less than the cost of purchasing similar individual drinks.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.
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Wine

The sale of wine in public houses has increased considerably since the sale of three basic boxed types wines were the only types offered in the 1990's. Licensees have recognised that the wine-drinking public now select wines for flavour and country of origin.

A selection of wines will usually be available including various whites, rose and red to sell by the glass or by the bottle; in addition sparkling wine and champagne may also be available depending on the client base.

It is a good selling technique to introduce a new range regularly but to also maintain some of the original stock for regular customers.

An experienced landlord should have a reasonable knowledge of wines and should be able to answer questions from the customer regarding texture, taste and region of origin. Staff should also be adequately trained in this field.

Many outlets now offer wine by the bottle for sharing (at say £10) or price a 250ml measure at £4.50 and add that if two of these measure are purchased the rest of the bottle will be given to the customer free, providing a 250ml glass which only in fact then costs £1.

Bottled Drinks – Vacuity/Ullage

Ullage is the air space in the neck of bottled drinks which prevents carbonated products from exploding or blowing the cap off when shaken.

Ullage is calculated as a percentage of the declared fill capacity and is known as vacuity.

Measures for Dispensing Drinks

www.businesslink.gov.uk/ and www.tradingstandards.gov.uk/ specify the measures in which drinks may be sold.

Draught Beer and Cider

Draught beer and cider will be sold by half pint or multiples of half pint measures. Suitable beer measuring instruments or “stamped glasses” which bear a Crown stamp must be used to serve these drinks. In order to give the correct measure the glass must be filled to the brim and therefore the drink cannot be served with an excessive “head” or the customer is entitled to have the glass “topped up”.

Alternatively licensee serve their drinks in lined glasses, these are also known as oversized glasses and the measure is denoted by a clear line near the top of the glass, these allow a substantial “head” to be served.

Plastic glasses, metal tankards and jugs and pitchers may also be used but they too should be stamped.

Beer measuring instruments automatically dispense a half pint or multiples and these should bear the Crown stamp.

Gin, Rum, Vodka and Whisky

In the past spirits have been sold in measures of 25ml, however many licensees now “upsized” and offer larger measures of 35ml, which claim to offer customers a better taste experience however also providing licensees with higher margins.

However it is still permissible for landlords to offer both 25ml and 35ml measures in the same premises. They may of course sell multiples of these two measures.

Optics which pre-determine quantities or stamped thimble type capacity measures will be used for measuring spirits. A stamped thimble measure is one that bears a Crown stamp denoting that it has been passed as fit for use for trade by an Inspector of Weights and Measures. The stamp will be accompanied by the Inspectors reference number and the year it was applied.

Where a stamped capacity measure is used, the drink must be poured in view of the customer to enable them to see that a full measure has been provided.

Which ever method is used a notice must be displayed on the premises stating the quantities in which spirits are sold.

The above quantity requirements do not apply if a customer expressly requests a different quantity as part of any mixture of liquids. Neither do they apply if any of them form a constituent in a mixture of three or more liquids, for example in a cocktail.

Wine

In the past wine may have been served in glasses measuring 125ml (small), 175ml (standard) and 250ml (large) but not many landlords offer the 125ml measure anymore.

Wine glasses must be stamped with the measure or other equipment used to measure the quantity of wine such as thimble measures or optics must clearly state the amount of wine being dispensed.

A notice must be displayed stating in what quantities wine by the glass is sold.

The above quantity requirements do not apply to dessert wines or when the customer specifically requests wine in a different quantity as part of a mixture of liquids.

If wine is sold in a carafe which has been filled from a bulk quantity, it may only be sold in quantities of 250ml, 500ml, 750ml or 1 litre.

The above requirements are detailed in Regulations and Orders made under the Weights and Measures Act 1985. Those who do not comply may have their equipment forfeited and may face prosecution.

Further information may be held at your local Trading Standards office or on their website.

Useful Measures

The following provides an indication of the number of measures that can be obtained from bottles of spirits, however licensees may dispute this fact and you may have to consider some allowances for tolerances.

Bottle Size	25ml	35ml	50ml
0.70 L	28	20	14
0.75 L	30	21.4	15
1 L	40	28.6	20
1.5L	60	42.9	30

Note:

Trading Standards have permitted tolerances that they accept, therefore the number of measures which might theoretically be obtained from a bottle is, realistically, unlikely to be achieved.

As there are so many varying sizes of measures dispensed, it should be established what the precise quantities served are and the optic sizes used in individual establishments.

Suppliers and Terms

Suppliers and their terms will vary depending on the type of licensed trader, for example:

Tenants

Tenanted pubs are 'tied' to the parent brewery or non-brewer pub operator for the purchase of a specified range of products.

Some breweries will offer discounts to tenants provided that their agreed barrelage targets are met.

Many 'one stop' specialist suppliers sell vast ranges of supplies for the hospitality sector, including cutlery, tableware, glasses, and cleaning materials.

If both consumable and non-consumable items are purchased from the same supplier, care should be taken to identify the category into which each item falls for accounting purposes.

Licensees may also make regular purchases from or have contracts with printers, electrical good retailers (for television and appliance rental) and cleaning agencies.

Newspapers for the lounge and bar areas will be purchased from local newsagents.

Those who have functions rooms for parties and celebrations may have a contract with a local florist for flower arrangements and table flowers. An agreement relating to discounts is likely to be agreed between the florist and the licensee.

Weekly orders from breweries are usually delivered within 2 to 3 days of the order being received and payment is often by direct debit to the brewers' bank account. Payment is therefore between 7 and 14 days. As with many sectors other suppliers may offer terms of 30 days.

Free Houses

Free House landlords can purchase products from any suppliers such as independent wholesalers or major brewers and they will obviously purchase from suppliers who offer the most competitive terms.

In some cases, Free House owner will enter into a loan tie with a brewer for a set period (ten years) and in return for a loan with favourable terms, the owner has to stock the brewery products.

Managed Outlets

Managers obtain their supplies through their specific brewery and the brewery stipulates the products that should be sold and design the restaurant and bar snacks menus.

Menus for all managed outlets relating to each specific brewery are uniformed and customers expect the standard and quality of food and its presentation in one managed outlet to mirror that in another.

Acquiring Licensed Premises

Acquiring the licensed premises whether as a tenant, lessee or by outright purchase as a Free House will be the initial major expense and prices will vary according to the location and size of the outlet.

When reviewing a new business you should establish how the purchase or lease agreement was financed and refer to any lease and tenancy documents.

Most tenants will purchase the tenancy of an existing public house, although on occasions there may be the opportunity for a prospective tenant to purchase premises that have been closed down for some considerable time. The brewery concerned may then offer the new landlord a very low starting rent but will increase this as and when the business begins to flourish.

Costs may also be incurred for refurbishment of the premises and changes may have to be made in order to comply with and Fire and Health & Safety regulations.

Major costs may be related to changes in the structure of outlets such as widening doors, providing ramps and providing a disabled toilet in order to comply with the provisions of the Disability Discrimination Act 2004.

Running Costs

As with many different types of business, similar costs are incurred that are not generally affected by the level of business carried out and regardless of how much or how little income is generated, these costs will remain constant.

Fixed costs include:

- lease, tenancy rental
- business and water rates
- utilities.

Others

- cleaning and cleaning materials
- general maintenance
- fixtures, fittings and furnishings.

The following provides a brief overview of the types of expenditure commonly incurred:

Equipment

It is impossible to state the exact cost of equipment for licensed premises as costs will vary depending on the size and standard of equipment chosen for each individual outlet.

The alternatives to purchasing new equipment are lease purchasing, rental, or buying second hand items.

Pub signs and fascias will be required; some will be illuminated and costly.

Sound systems and big screen televisions may also be purchased.

A vehicle will usually be required for collecting supplies and you would expect to find fuel receipts (which may be an indication of the amount of trips to wholesalers) and vehicle maintenance expenditure.

Security devices, cameras and safes are essential in licensed outlets which are prime targets for burglaries, due to large amounts of money being held on the premises at weekends and substantial stock stored that can easily be disposed of at a profit. Prices will usually start at £2,500 and increase if internal cameras connecting all bar areas to a monitor in the licensee's private accommodation are installed. Smoke dye units may be fixed inside the safe, but these will incur a separate cost.

Many licensees now purchase a book keeping system designed specifically for the trade or a PC with trade specific software.

Licensees who accept electronic payments for restaurant meals will require a Chip and PIN machine for swiping debit and credit cards. These can be leased from banks at around £20 per month; however charges may vary according to individual bank.

Televisions

If the licensee runs a sports bar or encourages customers who are interested in major sporting events a large screen television may be purchased along with a SKY package.

Sky Broadcasters offers various types of packages, after entering their website select "Packages and Costs" from the right hand banner and then select "View Package Options". From this you will need to select the section relating to the specific Annual Non-Domestic Rateable Value of the outlet under enquiry.

The appropriate grids will then become highlighted and the costs for 4 different options will appear.

For example where the rateable value is between £300,001 and £550,000 the cost for option 1 would be £2,496 per month excluding VAT compared with £1,342 for an outlet within the range £83,001 to £110,000.

These examples have been illustrated to show the level of expenditure required to provide this type of entertainment over a 12-month period. You would need to consider whether this level of expenditure is justified compared with the takings returned.

It is unlikely therefore that Tenancies, Leased outlets and Free Houses will subscribe to the business package, but Managed Houses will because the Brewery will be making the payments.

If you do encounter a subscription relating to a business that is not a Managed House you should consider the cost of the package alongside the annual turnover of the business and whether it is a viable proposition as a way of encouraging trade or is this an indication that the actual turnover figures of the business are understated.

This information has been included for example purposes and is not an endorsement of this specific company or products.

Base Stock

The licensed trade sector has a need for minor fixed assets including glasses, cutlery, tablecloths and napkins and crockery. By their nature these items need to be replaced regularly as they are subject to vigorous use.

It would therefore be impractical to record each item separately as fixed asset or to apply a depreciation policy to them.

A base stock can be established, which represents the likely level of requirements at any one point in time.

Purchase of Licenses

There will be an invoice relating to the cost of the new licences required since November 2005.

In Northern Ireland there are no new licenses issued to landlords and therefore new licensees must acquire an existing licence, by purchasing an existing licensed business outright or by purchasing an existing licence from a business which is ceasing and then transferring the licence to the new business. As licences are few and far between they attract a sizeable premium depending on the location.

Tills

There has been an increasing use of computer based systems in this sector in recent years, for example computerised tills which detail sales and identify trends more clearly.

EPOS tills can link up to a printer in the kitchen and they can also monitor sales by individual staff and monitor stock for both the kitchen and the bar areas.

As EPOS tills are generally very expensive to purchase, it is unlikely that they would be found in outlets with takings less than £250,000 pa.

They can track purchases through stock to sales and records derived from them may enable reconciliation to budgeted forecasts.

In some cases these include recipe ingredient analyses with purchasing data to enable a tight control to be exercised over margins achieved.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.
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Beer Gardens

Licensees who have a beer garden will need to purchase picnic type tables and benches, some may purchase wrought iron furniture but this will obviously be more expensive.

With the introduction of the ban on smoking in licensed premises in 2007, many licensees are currently purchasing large tables with attached seating and parasols together with external lighting and heating

equipment. Others are installing heated outdoor smoking rooms or caravans and buses, but there are likely to be issues with insurance companies and the risks of fires.

The cost of bedding plants, trees and hanging baskets will be an annual expense.

Outdoor lighting may be one of the most expensive requirements, but will be essential from a health and safety aspect.

Some licensees may purchase barbecues for use in the summertime.

Competition, Promotion and Advertising

Competition

The licensed trade is intensely competitive, success depends on anticipating customer demands in terms of service and facilities and the prices charged for them.

Competition is likely to come from well-established and larger outlets in surrounding areas and from major leisure centres with bar facilities.

However, refurbished and new outlets can capitalise on unique points relating to the design and décor of the premises and to selective menus that another local competitor may not offer.

Promotions are also an important tool in combating competition.

Promotions

First impressions are important and external features may be a guide to the type of establishment. A well-maintained building with a prominent pictorial sign and hanging baskets will generally be more appealing to the public and may help to promote trade.

Due to strong competition within the trade, licensees are becoming more inventive and now often offer themed evenings, quiz nights and promotional events in order to retain clientele and introduce new customers from further a field.

Point of sale promotions attract custom and may increase sales, for example eye-level marketing of a particular bottled sprit mixer or cocktail may encourage trade at the weekend in trendy outlets where customers are not particularly sensitive to pricing structures.

When guest ales are initially introduced the licensee may use the first container to promote the product to regulars by offering it at a reduced introductory price or by actually providing half pints free to customers.

Common promotions include:

- 2 for 1 offers - for example two bottles of imported beer or lager for the price of one
- A free half bottle of wine with meals purchased before 6pm to encourage early trade
- Meal Deals, which include a main course from a set menu and a choice of drinks for £6.99.

From an enquiry aspect you will be trying to establish the impact of any particular promotion or advertising campaign on the takings of the business.

Where the licensee chooses to promote the business at a promotional event the provision of food and drink is an allowable expense and the adjustment should be made between cost of sales and below the line expenses to avoid distorting the gross profit percent.

Advertising

Brewers and licensees both have to comply with the restrictions of advertising alcohol as set out by the Advertising Standards Authority.

As an example television advertising does not permit drinks companies to show groups of people drinking in licensed premises in rounds. There is an implication that if there are 6 people in a group then all 6 are likely to purchase a drink in one session, resulting in binge drinking. Drink companies are encouraged to show that they are doing all that they reasonable can to discourage immoderate consumption.

Licensees may benefit from the major drinks suppliers using television advertising for alcoholic products such as beers and lagers throughout the year and liqueurs, spirits and whiskey around Christmas and New Year.

Whilst the breweries spend vast amounts promoting particular brands of drink, public house are not advertised nationally and depend on some of the following for their advertising:

- in the local newspapers, magazines and journals
- leaflet drops in local areas if a special event is imminent
- posters in local factories advertising lunchtime bar snacks
- in good pub and good food guides
- in real ale magazines if beer is brewed on the premises (Free Houses)
- chalk board in the bar area advertising forthcoming guest ales
- placing signboards outside on pavements (where local authorities permit)
- on the local radio stations to advertise Christmas festivities
- in directories such as Yellow Pages and Thomson's.

There may be issues associated with licensees deceptively advertising nitro-keg smoothflow beer as real ale and pubs displaying signs suggesting real ales are on sale or guest beers available, when in fact they are not. The retail price of guest beers often far exceeds that of regular brews.

From an enquiry aspect you will be trying to establish the impact of any particular promotion or advertising campaign on the takings of the business. For example where a free half bottle of wine with meals purchased before 6pm is advertised to encourage early evening trade.

Word of mouth is the most powerful form of advertising, however it can also be very damaging if the business is badly run.

Rural outlets will rely on their reputation to build customer loyalty and if they are situated in sparsely populated local beauty spots or on a caravan park they may be governed by seasonal trade.

Customers

The customer base will vary according to the type of outlet, for example if the premises are primarily a local they are likely to have a regular clientele of heavy drinkers, while families are likely to be attracted to large managed outlets providing children's facilities and city centre and town pubs will have a continually changing clientele from all walks of life.

Most managed outlets target young people and the newly introduced extended licensing laws are likely to result in these outlets providing an image similar to that of a nightclub with discos or at least music in order to retain this type of trade and age group.

In traditional outlets older males make up the main customer base, while younger males will often prefer a more modern environment where continental lagers and premium beers are served.

Females are usually attracted to designer bars, café bars and gastro pubs as they see them as being more relaxed leisure venues. Professional females in particular are regarded as a growth area for licensees as they are likely to have more disposable income.

Tourists often seek out traditional taverns in the larger cities because they are interested in the history of the outlets and legends attached to them.

There are also student friendly pubs located close to universities and colleges that offer a limited menu of cheaper meals and traditional brews in more basic surroundings.

Sports bars and premises with large screen televisions will appeal to both male and female customers when major sporting events are broadcast.

Some may offer discounts on bar meal for example 2 for the price of 1 before 5pm Monday to Thursday in order to attract senior diners during normally slow sales times.

Methods of Payment

Most sales in a public house will be cash transactions, however some of the larger outlets now accept “Switch” and debit cards and also give cash back.

Credit Cards

In pubs where the trade is predominantly restaurant food with alcohol served as an ancillary, it is highly likely that credit cards and cheques will be accepted.

While licensees with smaller outlets are unlikely to accept credit cards as the credit card companies impose a charge for each transaction made.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

2004 Volume of Payments above £1 by sector UK:

Pubs/Clubs & Bars	Total (million)	Cash	Total Cheque	Debit Card	Credit/ Charge Cards	Other
	1,194.3	1,121	5.7	41.8	24

2005 Volume of Payments above £1 by sector UK:

Pubs/Clubs & Bars	Total (million)	Cash	Total Cheque	Debit Card	Credit/ Charge Cards	Other
	1,170.3	1,087.9	7.0	44.3	26.6

Source: APACS

Legislation and Regulations

Legislation of particular relevance to the licensed trade sector includes:

Weights and Measures Act 1985 – Alcoholic drinks must be sold in specified measures and licensees must conform to the statutory obligation to display a notice indicating these measures.

Data Protection Act 1998 - Any business which keeps records of customer's details such as telephone numbers and names if they reserve a table in the restaurant must register as a data user with the Information Commissioner.

Gaming Machines – Since the new Licensing Act 2003 was introduced responsibility for granting gaming machine permits has been transferred from licensing justices and is now dealt with by local authorities.

Tobacco Products Regulations 2001: There is a compulsory marking scheme for cigarettes and hand rolling tobacco. All products sold in the UK have to carry a fiscal mark to indicate that UK duty has been paid. It is a criminal offence to sell or to deal in unmarked cigarettes or hand rolling tobacco.

Tobacco Advertising & Promotion Act 2002: regulations restricting point of sale advertising and cigarette vending machine advertising were introduced in 2004.

Fire Precautions (Workplace) Regulations 1997 – in order to simplify this regulation it was amended on 1st October 2006 and replaced with - The Regulatory Reform (Fire safety Order) 2005.

Price Lists

Price list must be displayed in each bar indicating drink prices.

Restaurants that are not self-service should have the price list on display near the entrance. The price list must be clear and legible so that intending purchasers can read it easily.

The intention is that potential customers should be aware of food and drink prices prior to ordering.

All prices must include VAT and any other charges must be clearly shown and be as prominent as the prices themselves.

Appendix 7 details a "Drinks Price Survey".

Licensing and Insurance

Licensing Act 2003 – sale of alcohol

Licensees selling alcohol prior to 2005 required an on-licence from the local licensing justice. A new system of alcohol licensing in England and Wales took effect from November 2005

Two licences are now required - a premises licence and a personal licence for the person who supplies or authorises the supply of alcohol.

Responsibility for issuing licenses has now been passed to local authorities that will only award a licence if certain standards are met.

The Department for Culture, Media and Sport hold information in relation to alcohol and public entertainment licenses.

Appendix 5 provides details relating to the cost of the new licence fees.

The new legislation does not currently apply in Scotland, where a licence must be obtained from the local licensing board. A new system of alcohol licensing will be introduced in Scotland during 2007/8.

Other Licences required include:

- A licence from the Performing Right Society will be required where background music, live music, a juke box or karaoke are provided.
- A licence from Phonographic Performance Limited (PPL) is required and for using music videos, a Video Performance Limited (VPL) licence is required.
- The Department for Culture, Media and Sport for information relating to public entertainment licensing.
- Television Licensing in public bars is covered by a single licence.

Door Supervisor Licence

Many town and city centre pubs now require the services of security doormen. This is a now a regulated industry and it is a criminal offence to work as a Door Supervisor in England and Wales without an SIA licence. You can find further information in TIP 39 – Night Clubs in the Door Supervisor Licence section.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.
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Insurance

Public Liability insurance is a legal requirement for all businesses and the certificate must be displayed on the premises.

Insurance against liability for injury or disease sustained by employees in the course of employment under the Employers' Liability (Compulsory Insurance) Act 1969.

The Occupiers Liability Act 1957 states that licensees must take reasonable care not only for customer's safety but also for other people, such as postmen and suppliers, who are lawfully on the premises.

Other policies include Buildings & Contents Insurance, Profit Protection Insurance and Personal Insurance.

Gross Profit Rates

The retail prices of beers, lager and soft drinks has gone past the point where the paying customer believes them to be good value and this has resulted in falling attendances in public houses and reduced margins for many licensees.

It is likely that smaller pubs, particularly those which have to price competitively may have suffered a fall in margins and that gross profit rates are unlikely to have increased in traditional ale houses.

Due to the decline in beer sales many licensees have had to diversify and increase revenue from the sale of food in their outlets in order to compete. Margins achieved on catering activities can be substantially higher than margins achieved on alcohol sales.

You will need to examine the pricing policy and the relationship between wet sales and dry sales of each individual outlet.

Generally gross profit rates are likely to range between 52% and 62%. The Office of National Statistics quote the gross profit rate as 62.6% for 2003 but this figure includes licensed clubs. Figures may be reduced due to price competition and a reduction in the amount of people frequenting pubs.

Obviously the type of outlet and services provided will affect the overall gross profit achieved. In a traditional "Ale House" where the licensee relies mainly on regulars and offers only crisps and packet snacks the gross profit is likely to be at the lower end of the range.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

While in refurbished managed houses (particularly in capital cities) where catering is predominant you may expect to find gross profit rates in the upper range or even exceeding it.

Tied tenants are only given very small discounts on purchases and they are therefore likely to achieve lower overall gross profit rates.

Applying standard mark-up rules to free houses may be problematic since supply costs vary widely from suppliers and selling price is dependant on local competition, therefore this aspect would need to be critically reviewed.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Factors Affecting Gross Profit Rates

The gross profit rate achieved by the outlet may be affected by a variety of factors including:

- the introduction of the new extended licensing hours
- falling volume of sales of drinks
- discontinuing 2 for 1 drinks in response to government initiatives to curb binge drinking
- product mix
- introducing restaurant food and hot beverages
- refurbishment to attract young professionals with more available income
- introducing premium bottled drinks and expensive wines and food sharing dishes
- providing a wireless broadband access point
- providing play areas to encourage adults to spend while the children are entertained

- refurbishing a function room and charging room hire
- giving free drinks to draymen, staff and visiting sports teams
- increased local competition or closure of a factory or large office block
- level of discount obtained from suppliers
- introducing entertainment and quiz's and providing large screen televisions for major sporting events – football, tennis and horse racing
- new amusement and other vending machines and cash withdrawal machine.

Wastage and Losses

Wastage at some level is unavoidable and will no doubt be quoted by the licensee as a prime reason for low margins.

You may encounter the following explanations as to why and when wastage occurs:

- “tapping” a barrel of traditional beer
- drawing the beer through the pipes at start of trading (draught beers only)
- changing over a keg and fobbing particularly in hot weather
- breakage of bottled beers when replenishing stock
- staff over filling lined glasses –
- free flow beers and lagers – more wastage than controlled measured dispense units
- staff dispensing incorrect drinks
- ullage – which is the amount by which each cask is short, plus the wastage at the bottom of each cask - between 5 and 8 pints per 36 gallon
- draymen short delivering of cases of bottled beers – empty cases being inserted between the full ones and then full ones being sold on to other licensees.

Losses and general pilferage of both food and drink by staff should also be considered. Staff may often consider it to be their entitlement to take the odd drink or bowl of food without making payment as compensation for poor wages as many are only paid the minimum wage.

Staff may also give friends and family free or cheap meals and drinks.

Sales of both drinks and food may fall when there are adverse weather condition such as in 2000 when there was widespread flooding in many areas. Food may have to be thrown away if a barbecue is planned and then has to be cancelled.

You may wish to refer to [TIP 158 Weather Diaries](#) to confirm whether or not adverse weather conditions were appropriate in a specific region on a specific day.

If during your enquiry you find losses and wastage to be excessive you may wish to ask the trader some of the following questions in order to gain a more accurate picture of the working practices:

- Is all stock rotated on a regular basis to avoid it passing its sell by date?
- Are correct cellar temperature maintained in order to eliminate wastage due to over carbonation or chill haze?
- Are the pipe lines and equipment cleaned regularly to prevent contamination/fobbing?
- Is the cellar well organised to prevent spillage or cask disturbance?
- Are good beer handling procedures in place particularly for cask conditioned beers?
- Are staff trained in correct dispense and cash handling procedures?

If the licensee can answer “Yes” to all of these questions, then wastage should be at a minimum.

Factors Affecting the Trade

Product Mix

The product mix will depend on the type of outlet, its location and customer base and variations in the range of services offered, therefore each case will have to be reviewed according to the type and the facilities offered.

Variation in product mix will affect the Gross Profit Rate achieved and the location of pub and customer profile will determine the amount by which food and drink are marked up.

Basic beer drinking outlets still exist where the business relies solely on the sale of draught beers and larger and cider but many have now had to re-think their businesses and introduce additional services such as:

- bar snacks and restaurant meals
- cash machines
- hot beverages which provide good profit margins
- soft drinks dispensed as post-mix also attract a high profit margin.

Ancillary Income and all types of vending machine and amusement machine commission will have an effect on the product mix.

The usual method of establishing product mix figures is by purchase invoice analysis but licensed outlets will be invoiced for many items ranging from furnishings, linen and cutlery through to food, drinks and beverages, therefore a degree of interpretation may be required.

Some licensees may have management accounting systems, which monitor the mix of services provided.

Seasonal Effects

Seasonal effects are important when carrying out an analysis of takings or when selecting a representative period to re-compute sales in a business economics exercise.

You may envisage that the summer months will be the busiest times for this trade and in some outlets situated in tourist areas, close to a river or canal or with beer gardens and children's facilities this will be the case. However, traditional beer drinking outlets and those situated in villages that do not usually gain additional summer trade, may in fact have reduced takings during the summer when their regular trade take their holidays in July and August.

Some outlets are busy throughout the week at lunchtimes, others mainly only gain custom from Friday through to Sunday lunch.

Evening trade is usually busiest at the weekend but some pubs offer Pub Quizzes and two for one meals midweek to enhance trade.

Pre-Christmas, Christmas and New Years Eve are all busy time for licensees and you would expect to see increased takings from large groups of partygoers for both alcohol and catering sales throughout this period.

Lower sales are usually recorder during January and February.

Major Sporting Events

Major sporting events may affect the overall daily takings of licensed premises and may increase bar food and drink sales in outlets where a large screen television is provided in the bar area.

It may be worth checking specific annual dates for main events such as football, rugby, tennis and racing. Comparisons could then be made with the normal daily takings.

However, some licensees may claim that major sporting events such as the World Cup had an adverse effect on their trade as customers stayed at home to watch the matches.

As an example licensed premises situated close to Cheltenham are likely to benefit from extra sales of both drinks and food during the "Cheltenham" race week, which in 2006 ran from March 14th through to March 17th. Over 200,000 punters come from far and near for this annual event and many stay for the full 4 days. Vast amounts of alcohol, wines, champagne and spirits are consumed and in particular copious pints of Guinness.

You will need to consider the impact of such events on the business, for example the amount of extra stock required plus additional casual staff.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Directories

Details may appear on the growing number of websites that offer a directory service for example:

My Cartel UK Business Directory may provide information by using the search term “Public Houses” a drop down list of around 111803, possible matches in the UK will appear. You can then reduce this by selecting a specific area such as the Midlands or South East.

Pub Explorer provides details of specific public houses; enter the name and the County in the search facility.

There will of course be other similar directories and guides on the Internet that may assist with your project.

The Internet

Websites often graphically show the layout of licensed premises by bar, lounge and garden area, seating capacity of the restaurant and details of forthcoming events, where food is offered, menus may be included.

Internet searches for this type of information either at the pre or post-selection stage could prove worthwhile, especially where specific websites advertise offers or promotions. Anecdotal evidence also suggests that a website may also be the key in identifying other ancillary trade or potential income.

The Advertising Standards Authority provides details of restriction relating to the advertising of alcohol.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Trade Publications

Trade magazines such as the “Caterer & Hotelkeeper” and the “Hospitality” magazine may be a further useful source of information to assist with your project work.

The Morning Advertiser and Daltons Weekly will also provide sources of information relating to the prices of licensed premises for sale (Free Houses), equipment suppliers and other various aspects of the licensed trade.

The “Publican” is a trade magazine and a useful Internet resource relating to the sector.

Reference to commercial organisations and products

Please note that references to commercial organisations are included for example purposes only and are not endorsements of the organisations, products and services.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Records

Section 12B of the Taxes Management Act 1970 requires traders to keep business records and supporting documents for a period of six years. "Supporting documents" includes accounts, books, deeds, contracts, vouchers and receipts.

There is also a range of formal records available to assist in assessing the accuracy of the SA Return when the enquiry has been opened these include:

- daily record of takings - consider whether peak periods are reflected
- purchase invoices
- details of suppliers' accounts settled by standing order
- till rolls
- credit card slips and end of night reports from credit card machines
- petty cash records for small items of expenditure
- stock control records
- staff wages records and their personal details.

Records that are specific to the licensed trade include:

- vending machine takings and commission received
- booking diaries for function rooms and entertainment
- table reservations bookings and food sales records
- current and previous years price lists for drinks and food menus
- details of staff and owners consumption of food and drinks
- an account of free drinks supplied to draymen
- a record of spilt drinks, customer refusals and incorrect drinks
- contract agreements with local florists and other local suppliers
- television and sound rental agreements.

In well run outlets you would also expect to find a stock book co-ordinating purchases from different suppliers, if it is possible to review this it may provide an indication as to the amounts purchased to compare to the amount of sales.

Licensees should maintain records of factors affecting trading results such as the date a new activity was launched or a new pricing policy introduced and details of irregular wastage.

There are also various book keeping systems and software specifically designed for the licensed trade to incorporate wet and dry sales and to account for changes in selling prices when offers are available.

Records and Confidentiality

Licensees may hold personal details relating to customers such as name and address, e-mail or telephone number if they make table reservations in the restaurant.

If they maintain records of customer's personal details electronically they are required to register as a data user with the Information Commissioner.

Food Records

Since the introduction of the EU General Food Law in January 2005 all businesses in the food and drink industry are required to maintain records for 5 years of their food and drink supplies. They must include details of the supplier's name, address, products and the date of delivery.

Those who purchase fish direct from fishing boats require a licence and must maintain certain records under the 2004 "Registration of Fish Buyers and Fish Sellers Regulation".

Details to be recorded include the date and location of each transaction, the quantity of each species purchased, the price paid and the name, address and registration number of the seller. Records must be kept until the end of the second calendar year following the date of purchase.

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Employees and Employer Compliance Issues

The following section is designed to cover all issues effecting staff:

Primary Staff

Primary staff will include bar staff, waiting staff, chefs and cooks if there is a restaurant and cleaning operatives.

The amount of bar staff employed in a licensed outlet will depend on the size, the opening hours and the services offered by the licensee. For example if bar snacks are served at lunchtime and more substantial bar meals offered early evening then more staff will be employed than in an outlet that only offers crisps and peanuts as food items.

Main duties include serving customers and taking payment for food and drinks, keeping the bar servery clean, replenishing stock and removing empty bottles, filling the glass washing machine and cleaning tables.

Bar staff are usually expected to work evenings and weekends, often on a shift basis and both full time and part time workers are likely to be required, particularly since the introduction of extended opening hours. Students and mature people are often employed to cover seasonal work.

An outgoing personality, ability to deliver good customer service, team working and numeracy skills and a smart appearance and knowledge of food hygiene are the required skills.

Often bar staff will work for a medium sized outlet in order to gain experience and will then move on to management prior to taking over their own licensed trade business.

Door supervisors are likely to be employed in city and town centre outlets, TIP 39 – Night Clubs provides further details relating to the national system of registration for all door supervisors.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.
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Recruitment

Staff will play an integral part in the business and it is essential that the licensee employs people who have the required skills. They often suffer recruitment problems due to skill shortages and this leads to the employment of casual staff with less experience.

Licensees are also faced with problems in relation to employing illegal immigrant who may reply to advertisements for casual or seasonal work.

Top quality chefs and waiting staff may help a business to prosper; however the long-term losses of employing the wrong staff may be considerable.

Staff may be recruited in the following ways:

- through recruitment agencies – who charge fees for recommendations
- word of mouth recommendation from their own staff who know colleagues with specific skills gained from the same college
- through job centres
- through local or national press advertisements and specialist trade publications.

Staff Training

Most licensees will provide “hands on training” and this is usually given by a senior member of staff or by the licensee, who will train the staff to his or her own standards.

There will be ‘house rules’ to comply with for example areas of responsibility, dress code, time keeping and specific duties.

There will be instruction on basic drinks dispensing and equipment operation such as changing optics and kegs in the cellar.

Bar Staff will be trained in key risk areas such as till floats, cashing up the till at the end of the evening if appropriate, stock control and spirit replenishment.

Training for the food section will usually be carried out through a catering college or from more experienced chefs and cooks.

The British Institute of Innkeeping (BII) award a Barperson National Certificate and also offer various training courses.

Part Time and Casual Employees

Employment of part time and casual staff is common due to seasonal highs and lows within this sector, for example during the summer months in tourist areas and around the Christmas and the New Year periods.

Temporary or casual staff may also be employed where function room facilities are a major feature; however, banks of casual staff may service a number of outlets within close proximity to cover larger parties.

Payment for temporary staff is frequently by way of cash in hand and may often mean nothing more than wages to a member of the family; the validity of such payment should be examined.

Those who only pay the minimum wage are likely to have a high turnover of staff.

Risks associated with casual labour are likely to be:

- understated wages and so likely depressed sales
- wages paid cash in hand
- non-compliance with the National Minimum Wage Requirements.

The consequence may be:

- it can mean that low wages are topped up by claiming benefits
- the employer not accounting correctly for PAYE or NIC deductions, due to the non operation of PAYE, and following on from this, not accurately accounting for IT or CT.

Wages

Licensees will employ a wide range of staff depending on their type of establishment, ranging from those with no formal training who receive the “minimum wage” through to highly skilled chefs, who can more or less dictate their own salary due to the shortage in this field.

In such situations, they may be compelled to pay additional cash over and above the declared wages to prevent the chef from leaving.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

The amount of staff required will depend on the size of the business and the turnover, however even small outlets are likely to employ staff due to the labour intensive nature of the trade.

If there are no indications of employment of casual staff at any time of the year you may want to question how the business manages with increased custom at busy times.

National Minimum Wage

Due to the nature of many of the jobs found in this sector the level of pay is generally very low with unsociable hours and as many bar and restaurant waiting jobs are taken up by employees in the 18 to 21 age band, their pay is likely to be around 80p per hour less than the full minimum wage of £5.35 per hour.

The national minimum wage has three main rates. The rates from 1 October 2006 are:

£5.35 per hour	the main rate for employees aged 22 years and over
£4.45 per hour	the development rate for workers aged 18-21 years
£3.30 per hour	the development rate for 16 and 17 year olds who are over compulsory school age in their country of residence

bg.inrev.gov.uk/jslib/default_index.htm#http://bg.inrev.gov.uk/cagemployer/cases-e/esm009.htm details information for previous years.

P46'S

It will be important to establish that the correct PAYE procedures are being used – is the P46 procedure correctly followed for part time staff, family members or casual staff.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Employees Uniforms

Corporate uniform or protective clothing may be provided.

Refer to SE32475.htm - Other expenses: clothing – uniforms for information relating to 2002/03 and earlier years.

Refer to EIM32465.htm - Other expenses: clothing: specialist clothing relating to 2003/04 onwards.

Staff Meals

As a general rule providing staff with meals at their normal place of work can result in a taxable benefit.

However Extra Statutory Concession A74 exists which provides some measure of exemption.

Any cash allowances or reimbursements made to staff in respect of meals at their normal workplace should be treated as pay and so subject to IT and NIC.

Taxi's

In a service sector shift work is prevalent and the licensees may provide staff taxi's. What is often overlooked is that unless certain conditions are met, the cost to the employer is generally treated under present law as a benefit to the employee.

These conditions are:

- the employee is occasionally required to work late but those occasions are neither regular nor frequent
- at the time of going home, either public transport between the employee's place of work and home has ceased or that it would not be "reasonable" in the circumstances for the employer to expect the employee to use it

If these conditions are met, the employee will not be taxed on the cost of the taxi or transport

- a requirement to work late means working until 9pm or later
- late working is regarded as frequent if it occurs on more than 60 occasions per tax year
- regular refers to a predictable pattern - ie every Friday night.

It should be noted that although the cost of paying for a taxi to take an employee home from work at 3am, if the above conditions are met, is not a taxable benefit, the cost of paying for a taxi to bring another employee to work at 3am is.

Gangmasters

The implementation of the Gangmaster (licensing) Act 2004 - affects businesses in the food supply chain including agriculture, horticulture, processing & packaging of food, drink, plants and feed, and gathering shellfish DEFRA provide further details.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.
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Tips, Gratuities and Service Charges

Although the following section relates mainly to restaurants and hotels it will also be useful when considering Tips, Gratuities and Service charges in this sector.

Tips, gratuities and service charges all play a part in this sector.

Payments of this nature generally count as pay and are taxable income.

- where tips are collected from tables in the restaurant or and retained by the individual, there is no requirement for the proprietor to operate PAYE, the onus is on the individual employee to declare the tip
- if tips are collected into a central pool or 'tronc' before being shared out the distributor or 'troncmaster' will be required to operate PAYE
- when tips and service charges are collected by employers and then distributed, they should be aggregated with the employees' pay and taxed through the payroll.

Although many bills are now settled by credit card, the service charge, where a tronc system exists, will still be passed on to the troncmaster.

The employer may actually make an administration charge for processing the credit card payment, for example will retain 1.5% to 2% of the service charge as the fee and pass the balance to the troncmaster, and this may be made by cash, cheque, or even BACS.

In addition to a service charge, there may well be a cash tip left by the customer. Many tourists, especially American and Japanese are well known for leaving cash tips. Claims by licensees that cash tips are not left if there is a service charge should be questioned where appropriate.

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Chip & PIN

Chip and PIN, the payment system introduced to eliminate plastic card fraud has had an adverse affect on waiting staff in restaurants receiving tips from customers.

The old signature system provided diners with a blank credit card slip to add a gratuity to at their leisure, if they had received good service from waiting staff.

The new hand held Chip and PIN consoles force customers to make an instant decision in front of the waiting staff and on most occasions tips are not added. Information sources suggest that tips have fallen by as much as 15% since Chip and PIN was introduced.

However, many customers who pay by the Chip and PIN method in the restaurant will still leave a tip for staff in the form of cash to show their appreciation of the service provided.

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Appendix 1 - Glossary

The following definitions are widely used in the Licensed Trade:

Barrelage	the volume of beer sold
Bottoms	non-saleable residue at the bottom of a cask
Brim Glasses	glasses that hold a half pint or multiples and do not allow for a head
Cask	wooden or metal container used for maturing real ale
Chill Haze	cloudy layers that appear in the drink when it has been dispensed
Draymen	men who deliver beer, wines and spirits to outlets
Dry Sales	income from food
Flash Cooler	chilled unit found at the point of dispense
Fobbing	excessive froth
Guest Beer	beer offered for sale other than those supplied on a tied agreement
Head	the amount of froth dispensed on the top of the beer
LAB & NAB	low alcohol beer and no alcohol beer
Overspill Glasses	glasses that allow a head to be dispensed – lined and Crown stamped
Pitcher	a large jug used to serve beer/cider and cocktails
Tapping	a tap is inserted into a cask
Thimble measures	a measure used when serving spirits and vermouths
Thrawl	wooden trestle type bench for storing barrels
Topped up	beer added if the measure falls below the half pint/pint line
Ullage	shortfall on a cask due to evaporation/leakage (Beer)
Vacuity/Ullage	is the air space in the beck of bottled drinks
Vending Machine (AWP)	amusement machine with prizes
Venting	releasing excess pressure built up in the cask
Wet Sales	income from drinks

Appendix 2 – Associations and Organisations

British Institute of InnKeeping (BII)

Wessex House

80 Park Street

Camberley

GU15 3PT

www.bii.org/

The Federation of Licensed Victuallers Association (FLVA)

126 Bradford Road

Brighouse

West Yorkshire

HD6 4AU

www.flva.co.uk/

The British Beer and Pub Association

Market Towers

1, Nine Elms Lane

London

SW8 5NQ

www.beerandpub.com/

Association of Licensed Multiple Retailers (ALMR)

9b Walpole Court

Ealing

London

W5 5ED

www.almr.org.uk

The Campaign for Real Ale Association (CAMRA)

230 Hatfield Road

St Albans

AL1 4LW

www.camra.org.uk/

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Appendix 4 – Loans, Grants and Discounts

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

There appears to be an increasing frequency for brewers to pay discounts based in levels of purchases and brewers will offer the discounts in a variety of ways.

It is imperative to ensure that the treatment of brewery discounts and brewery loans (exclusivity agreements) are correct and this would encourage critical examination of these areas.

This area of guidance has been withheld to protect third party data.

Appendix 5 – New Licence Fees 2005

Following extensive consultation with local authorities, industry, clubs and other stakeholders about licence fees, the Department for Culture, Media and Sport announced the fee package on 20 January 2005 for England and Wales.

Ministers agreed to ensure from the outset that fee levels were set at the right level for businesses, community groups and for local authorities.

Main Fee Levels

Band	A	B	C	D	E
Non domestic rateable value	None to £4,300	£4,301 to £33,000	£33,001 to £87,000	£87,001 to £125,000	£125,001 plus
Premises licences*					
New application and variation	£100	£190	£315	£450	£635
Multiplier applied to premises used exclusively or primarily for the supply of alcohol for consumption on the premises (Bands D & E only)	N/A	N/A	N/A	X2 (£900)	X3 (£1,905)
Annual charge*	£70	£180	£295	£320	£350
Annual charge multiplier applied to premises used exclusively or primarily for the supply of alcohol for consumption on the premises (Bands D&E only)	N/A	N/A	N/A	X2 (£640)	X3 (£1,050)
Club premises certificates					
New application variation	£100	£190	£315	£450	£635
Annual charge	£70	£180	£295	£320	350

*There are additional fees for premises licence applications, and the annual fee for exceptionally large scale events (5,000+), unless certain conditions apply.

The Department of Culture Media & Sport provides information at Regulation 4(4) and 4(5)

Additional fees

Number in attendance at any one time	Additional Premises licence fee	Additional annual fee payable if applicable
5,000 to 9,999	£1,000	£500
10,000 to 14,999	£2,000	£1,000
15,000 to 19,999	£4,000	£2,000
20,000 to 29,999	£8,000	£4,000
30,000 to 39,999	£16,000	£8,000
40,000 to 49,999	£24,000	£12,000
50,000 to 59,999	£32,000	£16,000
60,000 to 69,999	£40,000	£20,000

70,000 to 79,999	£48,000	£24,000
80,000 to 89,999	£56,000	£28,000
90,000 and over	£64,000	£32,000

Other Fees

Licensing authorities will also be able to charge other fees in relation to their duties, most notably for temporary events and personal licences.

Application for the grant or renewal of a personal licence	£37
Temporary event notice	£21
Theft, loss, etc of premises licence or summary	£10.50
Application for a provisional statement where premises being built etc.	£315
Notification of change of name or address	£10.50
Application to vary licence to specify individual as premises supervisor	£23
Application for transfer of premises licence	£23
Interim authority notice following death of licence holder	£23
Theft, loss etc of certificate or summary	£10.50
Notification of change of name or alteration of rules of club	£10.50
Change of relevant registered address of club	£10.50
Theft, loss etc of temporary event notice	£10.50
Theft, loss etc of personal licence	£10.50
Duty to notify change of name or address	£10.50
Right of freeholder etc to be notified of licensing matters	£21

Source: Department for Culture, Media and Sports

Appendix 6 - Amusement Machines (AWP)

There are five bands of duty which apply according to machine type and effective cost per play.

Band	Applies to
A	Video machines, pinball tables and prize video machines, the commonest examples being quiz machines with a cost per play exceeding 50 pence.
B	small prize machines where the maximum payout per play does not exceed £8 (in money, money's worth, or tokens), and where the cost per play is more than 10 pence; and medium prize machines where the maximum payout per play exceeds £8 but does not exceed £25 (in money, money's worth or tokens), and where the cost per play is 5 pence; and jackpot gaming machines where the maximum payout per play exceeds £25 (in money, money's worth or tokens), and where the cost per play is between 3 and 5 pence.
C	Medium prize machines where the maximum payout per play exceeds £8 but does not exceed £25 (in money, money's worth or tokens), and where the cost per play is more than 5 pence.
D	Jackpot machines where the maximum payout per play exceeds £25 (in money, money's worth or tokens), and where the cost per play is 10 pence.
E	Jackpot gaming machines where the maximum payout per play exceeds £25 (in money, money's worth, or tokens), where the cost per play is greater than 10 pence.

Appendix 7 – Drinks Price Surveys

Pub Prices Survey 2004

The average price of a pint of real ale in British pubs is £2.06, compared to £2.25 for lager according to the Good Beer Guide Survey.

The Good Beer Guide 2005 features 4,500 real ale pubs in the UK and many of these were surveyed for the “Price Survey” which includes all types of pubs from town centre bars to rural outlets.

The survey illustrates large regional variations in pub prices:

Real Ale prices					
	2004	2003	% Change	Cheapest	Priciest
UK	206	198	4.19%	109	300
By Region					
East Anglia	215	208	3.39%	145	255
East Midlands	199	190	5.15%	123	240
London	224	213	5.13%	135	300
North	194	190	1.96%	109	230
North West	187	175	6.96%	110	236
Scotland	212	205	3.32%	129	250
South East	222	215	3.39%	135	280
South West	211	202	4.55%	150	250
Wales	196	186	5.37%	115	260
West Midlands	197	187	5.28%	115	240
Yorkshire	188	183	2.52%	109	230
Lager prices	2004	2003	% Change	Cheapest	Priciest
UK	225	217	3.93%	109	300
By Region					
East Anglia	241	229	5.29%	190	285
East Midlands	218	209	4.11%	135	270
London	241	234	3.03%	149	300
North	216	212	2.02%	109	280
North West	203	198	2.40%	146	248
Scotland	215	203	5.86%	179	245
South East	242	235	3.04%	159	290

South West	230	218	5.58%	168	270
Wales	211	206	2.43%	159	255
West Midlands	217	211	2.82%	149	270
Yorkshire	212	212	0.25%	125	250
Other Drinks	2004	2003	%Change		
Price of Real Cider	227	205	10.60%		
Price of Nitro Keg	203	196	3.44%		
Price of Keg Stout	241	232	3.95%		
Price of Keg Cider	230	221	4.18%		

Source CAMRA – Campaign for Real Ale

Pub Price Survey 2006

Real Ale prices					
	2006	2005	% Change	Cheapest	Priciest
UK	224	215	4.28%	99	310
By Region					
East Anglia	237	225	5.14%	160	280
East Midlands	210	206	1.92%	99	250
London	242	236	2.40%	135	300
North	206	196	5.34%	126	250
North West	197	184	6.88%	121	260
Scotland	232	229	1.19%	149	270
South East	242	232	4.40%	136	310
South West	227	218	3.85%	139	290
Wales	214	205	4.48%	139	270
West Midlands	208	204	2.33%	129	272
Yorkshire	205	195	4.77%	125	290

Lager prices					
	2006	2005	% Change	Cheapest	Priciest
UK	245	236	4.04%	145	330
By Region					
East Anglia	263	247	6.64%	220	310
East Midlands	230	224	3.02%	149	280
London	264	254	4.04%	164	310
North	235	223	5.12%	153	310
North West	221	211	4.70%	145	290
Scotland	231	227	1.94%	164	275
South East	261	252	3.63%	164	330
South West	246	240	2.64%	169	290
Wales	229	223	2.76%	169	285
West Midlands	231	226	2.20%	149	270
Yorkshire	235	223	5.62%	145	285

Other Drinks	2006	2005	%Change
Price of Real Cider	232	228	1.98%
Price of Nitro Keg	220	213	3.30%
Price of Keg Stout	261	252	3.30%
Price of Keg Cider	247	238	3.80%

	2005	2004	%change
Real Ale			
Real Ale prices for national brewers' beers	214	204	4.65%

Real Ale prices for independent brewers' beers	227	220	3.34%
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Real Ale prices for

Micro-brewers' beers	218	209	4.37%
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Real Ale prices in national chain pubs	221	213	3.70%
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Real Ale prices in independent brewers' pubs	226	218	3.62%
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Real Ale prices in Free Houses	224	215	4.01%
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KEG CIDER

	2006	2005	% Change	Cheapest	Priciest
UK	247	238	3.80%	149	310
By Region					
East Anglia	261	250	4.11%	199	300
East Midlands	238	229	3.71%	149	278
London	264	256	3.23%	189	310
North	232	227	2.24%	190	260
North West	229	218	5.01%	169	300
Scotland	238	237	0.24%	199	280
South East	263	253	3.89%	199	310
South West	244	234	4.31%	150	296
Wales	237	226	4.65%	180	280
West Midlands	235	228	2.74%	199	280
Yorkshire	236	226	4.45%	159	280

NITROKEGS

	2006	2005	% Change	Cheapest	Priciest
UK	220	213	3.30%	120	295
By Region					
East Anglia	235	224	4.83%	189	280
East Midlands	205	207	-0.77%	130	235
London	231	227	1.87%	159	295
North	208	195	6.79%	165	250

North West	190	185	3.08%	120	241
Scotland	225	219	2.51%	159	265
South East	241	231	4.02%	159	285
South West	229	217	5.24%	155	280
Wales	207	201	3.05%	165	260
West Midlands	210	205	2.62%	120	280
Yorkshire	204	194	4.85%	130	260

KEG STOUT					
	2006	2005	% Change	Cheapest	Priciest
UK	261	252	3.30%	153	325
By Region					
East Anglia	275	263	4.78%	215	310
East Midlands	249	241	3.38%	190	275
London	276	271	1.85%	199	325
North	242	237	2.26%	168	275
North West	240	233	3.13%	156	300
Scotland	246	246	-0.14%	210	290
South East	277	267	3.75%	199	310
South West	267	256	4.00%	150	296
Wales	247	240	3.20%	199	280
West Midlands	247	243	1.78%	185	280
Yorkshire	247	237	3.89%	153	300

Source: Campaign for Real Ale (CAMRA)

This area of guidance had been withheld because disclosure would prejudice the assessment or collection of taxes/duties or assist tax/duty avoidance or evasion.

Appendix 9 - Rates of Duty on Alcoholic Drinks

<http://www.hmrc.gov.uk/budget2006/bn55.htm> provides details relating to rates of duty on alcohol as per the 2006 Budget.

Other historic duty rates from January 1995 through to March 2005 can also be located on the HMRC website, these include:

- Cider and Perry historic rates of duty
- Spirits historic rates of duty
- Wines historic rates of duty.