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30 November 2023

Simply Planning
Third Floor Suite, Front Office
Victoria House, 114-116 Colmore Row
Birmingham,
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FAO Alastair Thornton

Dear Sir

The Old Stags Head, 65 Church Hill, Penn, Wolverhampton WV4 5JB

Further to the proposed planning application which you are intending to submit on behalf of Mr Jasdeep Sahota (3B1Y Ltd) relating to the above Property you have requested that I prepare a technical note as an update to the Viability Report dated March 2023 which was appended to the Appeal and referred to the Appeal Decision (Appeal Ref: APP/D4635/W/23/3319946) dated 11 October 2023.

Based on the previous refusal of planning consent for a Change of Use of the public house building to residential, one of the main points raised by the Local Planning Authority related to the business historically conducted at the above Property which they were of the opinion was viable

Further to the Appeal Decision the Inspector found that under UDP Policy C3, the public house use would be unviable as a public house and requirement 4 would be satisfied. Limited weight was given by the Inspector to the listing of the Property as an Asset of Community Value and under Policy C3 consideration was given by the Inspector to community facilities provided by the public house and not to those which could be provided.

The Inspector found that the proposal complied with paragraph 93 of the Framework, which states decisions should guard against the unnecessary loss of valued and services, particularly where this would reduce the community's ability to meet its day-to-day needs.

It was also found that the remaining policy requirements were also satisfied, and that the loss of the public house use had been justified based on the evidence before the Inspector (the Viability Report dated March 2023).

Furthermore, since March 2023 the economy and in particular the hospitality sector continues to face significant challenges which continue to impact on the viability of many public houses. Consumer choices have been affected by the reduction in discretionary spending with prolonged pressure from rising costs and recession uncertainty. Rising costs from the Russia's war in Ukraine have driven up food and energy prices, the aftermath of the pandemic, and ongoing political uncertainty all led to soaring inflation. The UK rate reached a near 40-year record, with CPI peaking at 11.1% in November 2022 before falling back to 4.6% in October 2023 affecting consumers and businesses alike. Consumers faced a 2022 winter energy price cap which was 96% greater than the previous year, while mortgage rates reached highs of 6.5% in October 2022 and according to Savills the typical private rent will end this year 9.5% higher than in December 2022 before rising another 6% in 2024 and potentially hitting an "affordability ceiling". Overall, research has found that rents increased by nearly 6% in the first eight months of the year, taking total growth since March 2020 when the first Covid lockdown began to 26%.

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Consumers average discretionary spending dropped by 11.4% year-on-year in November 2022, while the bottom 40% of households had a negative discretionary income, this figure had improved somewhat by October 2023 but is still 9% below the July 2021 figures (Asda Income Tracker). Annual food inflation jumped to 15.4% in May 2023, up from 12.4% in November 2022, according to the latest monthly report from trade body the British Retail Consortium (BRC) and the data firm Nielsen. The BRC said this was the highest monthly rate since it began collecting data in 2005.

For restaurants and bars, reduced consumer spending, rocketing utility bills, food inflation, and a planned rise in business rates for April 2024 are creating unprecedented pressures on their bottom line. In a survey by UKHospitality, BBPA, BII and Hospitality Ulster, 35% of UK hospitality firms worry they could be operating at a loss or cease trading completely by the end of 2023.

Over half of British residents' plan to cut back on their discretionary spending in order to put the money towards energy bills. Of these people, six in ten intend to achieve this by reducing how often they eat out (Barclaycard) and 77% of UK hospitality firms reported a decrease in diners and drinkers at the end of 2022 (UKHospitality, BBPA, BII and Hospitality Ulster). The BDO consumer sentiment survey (Q4 2022) shows that drinking and eating out were two of the worst performing categories looking back over the second half of 2022, however net spend intention looking forward is slightly more positive for drinking out.

The food delivery market has been one of the winners in the hospitality market, having already taken a share of the eating-out spend during COVID-19, with the UK takeaway market forecast to grow from £10.5bn in 2021 to £14.6bn in 2025. Consumers tend to perceive takeaways as better value for money and more convenient, while many people are continuing to order-in more than pre-pandemic as a result of habits laid down during the lockdowns.

More than any other industry, hospitality businesses are reducing opening hours to combat rising energy and staff costs. An ONS survey revealed that 21% of food and drink businesses are reducing hours, while 6% are cutting trading by two or more days a week.

On top of inflation, hospitality businesses continue to face a labour crisis, brought on by intensified visa regulations post Brexit and the movement of workers to other industries during COVID-19. In November 2022, one in nine hospitality jobs were vacant (CGA), despite ongoing major recruitment campaigns with vacancy rates still 72% higher than they were pre-pandemic (ONS) and in October 2023 CGA reported that more than two in five workers in the hospitality sector are considering a career outside the industry. A third of UK hospitality businesses were forced to reduce opening hours over Christmas 2022 as a result of staff shortages (Future Shock). Labour shortages have led to further pressure on profit margins, and not only from diminished opening hours.

Some of the hospitality sector has begun to benefit from increases in revenues (like for like) but are faced with mounting energy and input costs, as well as continued labour shortages, the effects of inflation and higher interest rates exerting increasing pressure on consumer spending and the subsidy provided by lower VAT rates ending in March 2023. A more volatile inflationary environment is something the economy has not experienced for many years and businesses are finding that maintaining margins along with bottom-line profitability is a serious challenge.

There appears to be a divide appearing whereby operators in villages and smaller towns are performing better as people look to stay local and economise whereas the cities and larger regional towns are taking longer to recover from the Pandemic. However, these smaller businesses, either single site owner operated or those with a small portfolio of pubs are not always able to make the operational improvements or maintain gross and profit margins in the same way as larger businesses can and will undoubtedly find maintaining let alone increasing profitability a challenge.

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The culmination of these economic pressures has resulted in pub numbers continuing to reduce, with 383 pubs being lost in the first half of 2023 of which 230 were lost in the second quarter alone (Altus Group) compared to 386 pubs which were lost during the whole of 2022. Many of these sites are considered no longer fit for purpose and were acquired for alternative uses including residential, office and day nurseries.

Over recent years, low interest rates along with government, legal and fiscal support measures have undoubtedly subsidised marginal businesses. However, there is likely to be an increased need for restructuring in one form as the economic uncertainty and cost pressures continue and will begin to affect these marginal businesses first. Repayment of government-guaranteed loans (CBILS), deferred tax liabilities and the ending of the energy bill relief for non-domestic customers on 31 March 2022 have not made the situation any easier.

The length and shape of this decline is still uncertain, and the hospitality sector will need to be more vigilant than ever to survive let alone thrive in the coming years. One of the biggest challenges will be to maintain margins and therefore bottom-line profit as inflation continues and each business will have a different point at which the customer's reaction to price increases results in a loss of revenue and will be a delicate balance to maintain. Indeed, many larger pub companies have already commented that there are only so much that can be passed on the customer before the company has to start absorbing increasing costs with the inevitable impact on bottom line.

In conclusion, based on my Viability Report which was issued in March 2023 and on consideration of the contents of this letter and taking into account the Old Stags Head's location; its physical size; the facilities it is capable of offering; the limited indications available of its most recent trade history; the external factors currently impacting on the trade performance of local public houses noted above (staff shortages, rising costs of utilities and products etc.); and the scale and nature of the existing local public house competition serving the community of Penn, I am of the opinion that the Property does not have a credible or economically sustainable future trading as a public house.

Suffice to say that the challenges set out in my report of March 2023, and as can be seen from above, those being faced as at today have exacerbated further and are likely to worsen going into 2024 making the possibility of re-establishing a viable pub business at the Old Stags Head even more remote without considerable investment and risk which a reasonable operator is unlikely to take.

Yours sincerely,

Monique Royle
Risk Management Director