

Our ref: MDZ/JHZ/BUT007  
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Date: 10 October 2024  
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The Case Planning Officer  
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Dear Sir or Madam

**Letter Report: Financial Review and Analysis of The Butchers Arms, Alltwen, Pontardawe**  
**Introduction**

We have been asked to report on the financial viability of The Butchers Arms, located in Alltwen, Pontardawe, following an analysis of the available financial records.

**Objective**

To evaluate the business's financial viability, outline the challenges faced by both a Tenant and the Freeholder. Upon evaluation to propose recommendations based on the findings.

Whilst the facility is still open and operating as a pub and restaurant, it has proved unprofitable, resulting in a number of tenancies, which have failed. Since acquisition in 2014, the freeholder has granted four leases, all of which have ended in business insolvency, leading to substantial financial losses.

This report will explore these aspects and provide a clear conclusion regarding the future of the property.

**Scope of Review**

The key areas of review include:

1. Financial viability of the business based on the accounts available
2. Analysis of the likely operating cost structures.
3. Review of the historical tenancy failures.
4. Evaluation of the property as an investment for the freeholder.
5. Conclusion and recommendations for future action.

**Methodology**

The analysis was conducted through:

- Review of the available financial records for The Butchers Arms as a going concern.
- Knowledge of sector cost structures for public houses of a similar size.
- Examination of tenancy failures and associated financial losses.
- Assessment of the property's marketability, potential yields, and investment viability.

**Review and Evaluation**

**1. Financial Viability and Cost Structure**



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The first company to run the pub traded for about 3 years before being struck off with known creditors of [REDACTED]. Trading continued beyond the balance sheet date and it is estimated that losses exceeded at least [REDACTED]. The second company to run the pub traded for 3 years before being formerly liquidated in around 2018 with known unpaid creditors of over [REDACTED]. Nothing was realised for the creditors. These losses accrued in around 3 years. The third company to run the pub ran up known creditors of [REDACTED] by the end of August 2021 and it is estimated total undisclosed losses would have amounted to over [REDACTED] before it was also struck off as an insolvent company. The fourth company has yet to file accounts but just over one year from incorporation has an application to be struck off the register.

## 2. History of Tenancy Failures

Since acquiring the property in 2014, the freeholder has granted four leases, all of which resulted in insolvency, highlighting the persistent financial challenges:

- **Lease 1 (2014 – 2017):** The company became insolvent and was subsequently struck off the Companies House register.
- **Lease 2 (2017 – 2020):** The company became insolvent prior to the pandemic and was also struck off.
- **Lease 3 (2020 – 2023):** Supported initially by pandemic-related grants and loans, the company became insolvent after a brief period of post-pandemic trading.
- **Lease 4 (2023):** This tenant suffered an accelerated financial decline and quickly became insolvent.

## 3. Financial Losses Incurred

The freeholder has experienced substantial financial losses. Specifically:

- Debt accrued from **Lease 3** stands at [REDACTED]
- Debt from **Lease 4** amounts to [REDACTED]

The combined losses from these failed tenancies are significant, and further losses would be expected if new tenants were granted leases.

## 4. Lack of Commercial Prospects

Although possible that another tenant could be found the quality of covenant is in doubt given the track record to date. We advise the Freeholder to express caution due to the risk of incurring additional losses. If the Freeholder decides to grant another lease with the main reason of avoiding the unaffordable costs associated with vacant premises, they should limit any future lease to a periodic tenancy of between six months and one year.

## 5. Structural and Maintenance Challenges

The Financial data shows that, the landlord has been forced to incur the cost of necessary repairs given that the tenants have not been able to do given their trading circumstances. From a review of Freeholders liquidity this is no longer financially possible.

## 6. Market and Sector Challenges.

We understand that the Butchers Arms has attempted to differentiate itself from other more traditional public houses, but this strategy has left it more exposed to a higher cost base. There is ample evidence that the traditional pub sector is under severe pressure nationally, with numerous closures Nationally.

## Conclusion on Commerciality

The evidence shows that the Butchers Arms is financially unsustainable. Each lease has resulted in insolvency, and the freeholder has incurred significant financial losses. There is no indication that future tenancies would fare any better, given the sector-wide challenges and the property's operational cost structure.

This business if marketed does not meet the acquisition criteria of Funding organisations due to its financial performance, and lack of sustainable trade. Specifically:



- It fails to meet lending criteria for loan-to-value ratios.
- Historical accounts do not demonstrate business viability.
- Fixed overheads, including business rates and utilities, are too high for the level of trade achieved.

#### Recommendation Options

1. **Cease Leasing for Pub Operation:** Given the historical failures, it is recommended that the freeholder cease efforts to lease the property as a pub or restaurant in its current form.
2. **Hold and Minimize Losses:** If an alternative use is not immediately viable, the freeholder should limit future leasing agreements to short-term tenancies while maintaining minimal operational costs to avoid long-term vacant premises charges.
3. **Close the Business:** Ultimately, the best course of action may be to close the pub and review the long-term strategic options for the property, as continuing operations in the current form will likely result in further financial losses. Although there would be Vacant Premises costs a further study is required to compare such costs with those of the ongoing deficits. Vacant Premises costs can more easily be predicted.

Yours faithfully



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