PROVIDING THE FOUNDATIONS FOR BUSINESS REVIVAL IN THE 2020s

The new decade has brought renewed optimism in the hospitality sector after years of uncertainty. A pro-business Government can support businesses to turn this optimism into increased growth, increased productivity and an increase in high-quality jobs right across the country.

Hospitality is already a major part of the UK economy. It employs 3.2 million people, a number that has grown by half a million over the last decade and is the UK's 3rd largest employing sector. Hospitality also generates £130 billion in economic activity per year with over £40 billion going to fund local and national services through taxation. Hospitality is also at the core of the UK's tourism offering – an export earning - which delivers over £24 billion of spend.

We are big business that is at the heart of every community in every part of the country. But we can do more and below we set out the conditions needed to unlock the sector's potential.

We are calling on the Government to unleash the economic growth of the sector by:

- Introducing a 10% cut in the business rates multiplier for one year, funded by central Government, and extension of hospitality relief to more premises
- Beginning the promised fundamental review of business rates at the earliest opportunity, preferably at Budget 2020
- Use the proposed review of alcohol taxation to incentivise consumption in hospitality venues, such as pubs, and to freeze alcohol duties at the March Budget
- Further consider a reduction in VAT for the accommodation and food and drink industry to support tourism throughout the UK, particularly in coastal communities.

We urge the Government to work in partnership with the hospitality sector to create more high-quality jobs by:

- Raising the employer National Insurance Threshold to support higher wages
- Ensuring that the Low Pay Commission's remit takes into account broad economic conditions when setting future wage rates
- Reforming the Apprenticeship Levy to boost take up across the sector, including SMEs, by allowing greater flexibility.

To assist hospitality in enhancing local communities, we request the Government to:

- Invest in local transport and communications infrastructure for the benefit of customers and employees alike
- Work with business to create the right regulatory framework to boost business, while protecting our customers, staff and the environment.

HOSPITALITY'S TAX BURDEN

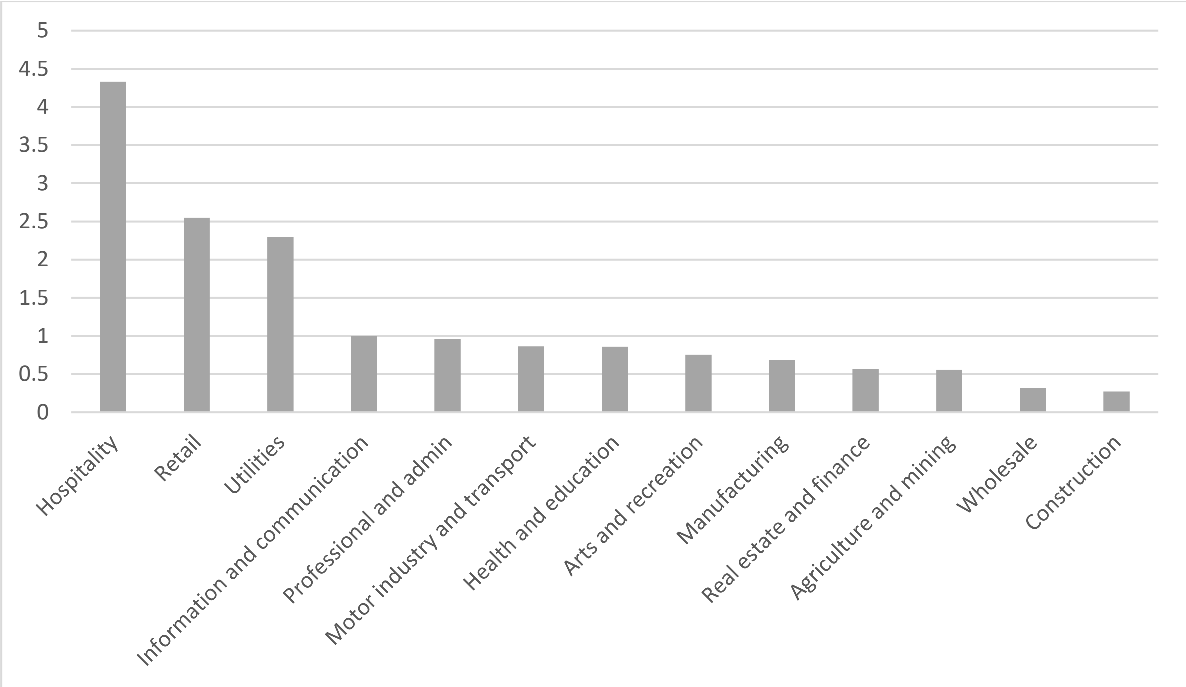
Hospitality is a comparatively highly-taxed sector with around a third of turnover being paid in taxes of one form or another. The sector is hit by VAT, business rates, excise duties on alcohol, gaming and energy usage, employment taxes and many more, constraining productivity, investment and wages. While it is recognised that tax revenue is critical for Government spending we believe there needs to be a better distribution of the burden across the economy, particularly as the nature of business has been transformed in the early 21st Century.

Business rates

Hospitality is the most disadvantaged sector across the whole economy by business rates. In relation to the turnover of the sector, hospitality is significantly overtaxed; it pays 11% of all business rates, yet makes up 2.5% of related business activity. If rates were equivalent to business activity then the sector's business rates bill would be just £713 million. Or in other terms, **hospitality businesses are overpaying on business rates by £2.4 billion.** This is highlighted in the chart below.

Fundamentally, hospitality is not an 'efficient' user of property. The experience of quality hospitality is such that people require space and a relaxing environment. Many businesses also cannot use their properties throughout the day, or even throughout the year, and therefore the property necessarily lays idle. Businesses have adapted and innovated to minimise these downtimes but they are a fact of life for many businesses. A tax based solely on property will therefore always disadvantage hospitality. The system is in urgent need of reform.

Ratio of rates to turnover by sector, UK



The Conservative Manifesto commitment to 'deliver a fundamental review of the system' was an extremely welcome recognition that the current regime is not functioning as it should. We urge the Government to ensure that the review is delivered at the earliest opportunity possible in the current Parliament and are prepared to support this process in anyway possible. A clear sign of intent at the March 2020 Budget would be highly desirable and reassuring for businesses.

The timing of reform is critical as the 2021 Revaluation will take effect from April next year. There needs to be a rebalancing of taxation away from property ahead of that date if the businesses that are at the heart of our communities are going to thrive or, in some cases, survive. Business rates is not the sole cause of high street decline but it has clearly contributed, with retail and hospitality demonstrably and notably the hardest hit. A shift away from a tax solely on property will almost certainly need other sources of revenue to ensure that local services are delivered. The review should consider what these might be.

In the immediate term there is an acute need for support at the 2020 Budget. To overcome current restrictions on State Aid support, we believe the most efficient way of delivering relief should be **an industry-wide, one-year cut in the business rates multiplier of 10% applicable to the 2020-21 business rates bill**. We recognise that the cost to Government (approx. £2bn) is significant but strongly believe that it would support a boom in investment, job creation and economic growth to counterbalance that cost, while giving a positive and much-needed signal of support to businesses.

Furthermore, it will allow industry and Government time to properly consider a new approach to property taxation.

We have seen the success of previous reliefs for pubs and high-street premises and we welcomed the Manifesto Commitment to continue with these and for their expansion. We **would propose that they are extended further to include hotels;** this would incur relatively limited costs as many hotel businesses would not be eligible due to their size.

Alcohol taxation

Excise duty on alcohol in the UK remains amongst the highest across Europe and the world, leading to higher prices for consumers and squeezed margins and lost sales for hospitality businesses. In the immediate term we urge Government to consider reducing alcohol duty rates by a modest 2 per cent.

We also believe it is important that Treasury looks at the overall duty regime, as outlined in the Conservative manifesto. This should prioritise support for products sold in the hospitality sector. For example, this could include a reduced rate of excise duty on draught beer – potentially through a lower duty rate on packaging. Support should be considered for other alcohol products sold in hospitality. Upon leaving the European Union we urge the Government to take forward such changes and seize the opportunities available to incentivise potential growth areas such as hospitality.

Accommodation and out-of-home food and drink VAT

It has been recognised that the rate for VAT in the UK for accommodation and out-of-home food and drink is out of step with most of our European competitor destinations for tourism. All but three current EU countries have a reduced rate of VAT for hotels, for example. While there would be a cost to the Treasury, we urge the Treasury to consider looking at options, particularly given additional flexibility on VAT rates that leaving the EU will present.

WORKFORCE

The hospitality sector is extremely proud of the breadth and diversity of its workforce, and the fact that it provides jobs and careers in every part of the UK. It provides a meritocratic process for people to develop successful careers, while also offering the flexibility and openness for new entrants to the job market and returners to work. Given the number of entry-level roles, there are a number of positions that are paid at, or relatively close to, the UK's minimum wage rates and the setting of the National Living Wage and National Minimum Wage are important for the sector. This is heightened due to the customer-focused nature of hospitality that makes it so labour-intensive – with over 30% of costs being accounted for by labour.

NLW position

After extensive consultation the Government has set out its intentions for the future of the National Living Wage, on a trajectory to hit 66 per cent of median earnings by 2024, and extending to those aged 21 and over. Achieving this will be challenging for many businesses, especially those in hospitality. It will put the UK as one of the highest minimum wage nations anywhere in the world.

Leading analysts Peel Hunt have looked at the impact on trading needed to cover the National Living Wage increase in 2020. The 6.2 per cent increase would likely need restaurants to deliver an 'almost 2% like-for-like sales growth to cover the cost of wage inflation' despite performing well below this level at present. This issue is further complicated by Government's intention to introduce legislation on tips and service charge. While UKHospitality supports the objective to ensure that staff receive their fair share of customer donations there are associated costs for business, including card charges and the administration of a troncmaster. Legislation will add further to payroll costs.

The hospitality sector has already declared its support for Government's ambition to 'abolish low pay' and has engaged constructively with the recent review with Professor Dube and consistently with the Low Pay Commission. To assist us in this objective we believe there are further changes that need to occur that will allow us to greater the high-quality jobs of the future that everyone is striving for. As outlined in the section below we believe reform of the employer National Insurance Contributions (NICs) would support businesses deliver on our shared ambitions.

Analysis from Ignite Economics for UKH has shown the impact of the policy announced (66% of median earnings and over 21-year olds by 2024) on hospitality employment, as shown below. While employment does continue to grow marginally, by 2024 there would be 217,000 fewer jobs, a relative decline of 6.2%.

	NLW to deliver 66% of median earnings by 2024	Hospitality employment	Change in jobs vs 60% of median earnings	Change in employment
2018	7.83	3,215	-	0.00%
2019	8.21	3,247	-	0.00%
2020	8.62	3,272	-	0.00%
2021	9.01	3,290	-37	-1.10%
2022	9.52	3,290	-94	-2.80%
2023	10.05	3,284	-158	-4.60%
2024	**10.5**	**3,283**	**-217**	**-6.20%**

While it is hard to directly quantify the cost of a single policy on investment decisions, provisional estimates suggest that for hospitality this could fall by over £3 billion – or 35 per cent. This is as revenue is allocated to wages and away from reinvestment.

LPC role

The future remit of the LPC is due to be set out shortly. We have applauded the work of the LPC in their advisory capacity in providing robust evidence for changes in the minimum wage rates. We would support the continued flexibility for the LPC to take into account the broader economic conditions that the country faces when recommending future wage rates. Indeed, there is a case for the LPC to be given the power to consider a wider suite of measures when considering their recommendations, including looking at future longer-term projections.

If a recession and unemployment is on the rise, for example, it would be expected that the LPC might consider lower increases in wage rates (and vice versa).

National Insurance Contributions

Increases in the minimum wage rates – and hence average earnings – have already led to a higher burden of NICs on the hospitality sector as the employer NICs threshold has not kept pace. Between 2018 and 2020 this will have added an extra £270 million tax on the sector in just two years, increasing the proportion of the wage bill taken up by NICs from 6.5 to 6.7 per cent.

The proposed increase in the NLW will lead to an extra £490 NICs tax bill by 2024 – in addition to £6 billion in wage costs. Between 2018 and 2024 this equates to a hike in the sector’s NICs bill of 37 per cent.

We believe that the risk to jobs (and job growth) and the significant tax hike involved in the increase in the NLW poses a risk to the economy and Government should support business to adapt. A genuine partnership between business and Government to deliver higher pay would be a positive example of how industry and the state can interact. We believe reform of NICs is the key to this approach.

Ignite Economics have modelled a number of options for changes to NICs that could help to alleviate the burden on business and support wage growth and jobs. These are included in the attached report ‘THE IMPACT OF THE NLW ON NATIONAL INSURANCE CONTRIBUTIONS IN THE UK HOSPITALITY INDUSTRY’. (see figures 5 to 12). This document does not present the definitive answers for the economy but hopes to begin the process of considering changes that would support business – either by adjusting the NICs thresholds or the rates.

It shows the extent of change needed to support business. For example, to offset one third of the cost increase that business will face the NICs threshold would need to increase by 59 per cent (figure 7) or by 21 per cent if coupled with a reduction in the rate to 10 per cent (figure 8).

As a first step we would recommend that at the March Budget the Government commits towards moving the employer NICs threshold towards the same level as the income tax level (figure 9). This would be broadly cost neutral for Government and business as the economy took the time to adjust towards becoming the nation with the highest minimum wage rate in the world.

Apprenticeship Levy (and Sector Deal)

The Conservative manifesto committed to help employers invest in skills and look at how we can improve the working of the Apprenticeship Levy. This is extremely important for the hospitality sector as it aims to deliver its Tourism Sector Deal pledge to deliver 30,000 apprenticeships in England. This needs the support of Government.

A number of barriers to delivery of apprenticeships have been identified that we believe Government can alleviate, with tweaks to the Apprenticeship Levy system. Firstly, we believe there needs to be greater flexibility in the delivery of off-the-job-training which is seen as too costly for many businesses. This could be through allowing a proportion of the Levy funding to be used for broader activity than just the cost of training and assessment.

We also believe there is more potential for the transferral of Levy funds between businesses. At the moment it is felt that this is too bureaucratic and is hindering the flow of funds to SMEs. A number of local areas, including the West Midlands Combined Authority, are making positive strides in this area, but more could be done. The hospitality sector is considering a trial to do just this, but a relatively small amount of funding would expedite this, and we would be pleased to look at this in partnership with the Department for Education.

More broadly, we feel that more prominence needs to be given to apprenticeships. The *Fire It Up* campaign has delivered positive results but there needs to be an ongoing focus on encouraging people of all ages to consider apprenticeships as a route into a valuable career.

LOCAL COMMUNITIES

The hospitality sector provides community hubs throughout the country - in cities, towns and villages. It contributes towards social cohesion and integration, healthier lifestyles and is an economic bedrock. The measures outlined above, on workforce and taxation, can help to expand the offering the sector can provide. But as well as these changes we believe that partnership between local and national governments and the hospitality sector on areas such as regulation and infrastructure would be beneficial, while bringing wider societal benefits.

Infrastructure

As highlighted earlier in this submission, the hospitality sector has a positive vision of its future, and a plan to achieve that goal, which would generate more jobs, with more skilled and higher paid staff, as well as sustainable economic growth to boost the UK economy. However, there are broader elements on key infrastructure where Government support is needed.

National infrastructure enhancements are imperative to facilitate the growth the sector is looking to deliver, particularly in the area of connectivity, both in terms of transport and communication. It also needs Government to use its soft powers to promote the UK on the global stage as an open and welcoming place for both business and pleasure visitors. The Tourism Sector Deal is a fantastic platform to grow the sector, and we look forward to the announcement of the new Tourism Enterprise Zones, as highlighted by the Tourism Minister at the recent launch of the VisitBritain-VisitEngland annual review.

Investment in local transport and communications will benefit hospitality customers, staff and businesses. We call on the Government to recognise this in this Budget and to enhance nationwide transport and communication infrastructure to unleash the potential of rural tourism and coastal communities – and indeed towns and cities outside of major conurbations.

Regulation

Hospitality businesses are subject to a host of regulations and legislation reflecting our varied businesses, ranging from food safety, environmental, licensing, nutrition, competition and many others. Good regulation, combined equally importantly with smart and proportionate enforcement, can be a boon to hospitality operators and our customers. There needs to be a balance between what is required to keep our customers safe and secure, and what effective measures businesses already take, without the need for restrictive, top-down legislation. We continue to work with all stakeholders to achieve this balance and ensure the sector's productivity and ability to invest are not hamstrung by red tape and inflexible legislation designed without the sector's needs in mind.

In a similar vein, businesses which operate in the sector or very close to it – for example online platforms – are often not subject to the same taxation and regulations as others, and positive legislation in this area can help the hospitality sector and protect businesses and customers. We are calling for a business environment that supports the hospitality sector and allows it to invest and grow – as well as continuing to provide a great customer experience. The hospitality sector needs the regulatory flexibility to be able to invest in our businesses. We have outlined key areas below where Government support is vital to create an environment which works for business, and a smart approach to regulation and enforcement. This includes fair tax treatment of amusement machines within the pub sector, previously recognised in previous budgets to ensure pubs can offer customers low stake and prize amusement options. The Gambling Commission itself recognises that there is no evidence that such amusement machines contribute towards problem gambling, yet they often represent a valuable source of income for venues.

In the sustainability arena the Government has already made a swathe of announcements, many of which will have a substantial cost and regulatory impact on hospitality. We would urge Government to act with caution while industry adapts, particularly in relation to the introduction of a deposit return scheme and associated changes to packaging waste targets.

Robust legislation is synonymous with good enforcement. This ranges across areas important to hospitality businesses such as planning, alcohol licensing, wage levels, health and safety, fire safety and many others. There are many positive schemes to facilitate interaction between businesses and those enforcing the multitude of laws to which the hospitality sector is subject, that ensure regulatory enforcement supports the sector to grow and invest.

Encouraging investment

To support thriving local communities we believe there needs to be a positive environment for business capital investment. In previous years there have been generous enhanced capital allowances, and hotel-specific schemes, that have helped to unlock local investment, stimulating further business growth for smaller businesses supplying into the sector. The hospitality sector could provide such a role with greater incentives, and we feel this would feed through into coastal communities in particular.

However, these incentives need to also be paired with a focus on freeing up the planning system. At present decisions are taking too long to process and decision-making can seem counter-productive to local development. While we respect that the views of local communities must be considered the wider societal benefits of encouraging planning and investment need to be taken into account.