

British Hospitality Association: Recommendations to Government

Hospitality and tourism is the fourth largest industry in the UK, accounting for 4.5 million jobs, and is the sixth largest export earner. Because of its wide reach across the UK, covering cities and countryside, inland and coastal areas, it offers one of the single most powerful means of redistributing prosperity and rebalancing the economy.

Following the economic downturn, labour productivity growth rates have been subdued across most major economies. However, over this period, the UK hospitality industry has returned the highest level of labour productivity growth of any industry – more than double the growth rate of the overall UK economy. Between 2008 and 2016 the industry is responsible for circa 15% of the total UK employment growth and between 2010 and 2014 it created 1 in every 5 new jobs. The UK hospitality industry has also reduced its capital output ratio by over 10%, showing a significantly improved use of capital – at a time when the capital efficiency of the overall UK economy has deteriorated¹.

Given the right policies, the hospitality and tourism industry will continue to drive employment, investment, exports and growth across the entire country.

Ahead of the 2017 general election, the BHA calls on all political parties to commit to make hospitality and tourism a strategic priority – as have so many other governments across Europe and the rest of the world. The BHA sets out the following recommendations on which it wishes the new government to act.

¹ ONS data, Ignite Economics Analysis, 2017

1. Develop evidence-based immigration targets

The BHA and our members understand that immigration policy needs to change. However, it is vitally important that the new immigration system which will be introduced after the UK leaves the EU should take account of the needs of industries, like hospitality and tourism, which have become reliant on service workers from the EU. The new government must put in place a realistic, ten-year phased approach, to allow time for the recruitment of UK workers, where possible. A recent report by KPMG - Labour Migration in the Hospitality Sector - concluded that at least an extra 60,000 EU workers were required each year to keep the hospitality business alone going (and growing).

We therefore call on all the political parties to make a commitment that the UK will create an evidence-based approach to the setting of 'immigration quotas' post Brexit, ideally by enlarging the role of the Migration Advisory Committee.

To reduce reliance on EU workers, the industry will encourage more British people to view hospitality as a career of choice, however, with government support we can change the perception of our industry much more effectively and expediently. In continental Europe, hospitality is seen as a valued career and managing a hotel, say, as something of which to be proud. **It is therefore crucial that the new government should be fully behind a drive to reposition the industry as a great place to work, and should use every opportunity to support the sector in its wider economic agenda.**

2. No plans, promises or targets for the National Living Wage

The BHA remains concerned about the impact of the National Living Wage (NLW) on a labour-intensive industry such as ours.

Accordingly, **the BHA is calling on the political parties not to set out any specific promises or targets for future rates of the National Living Wage.**

When the National Living Wage was announced in 2015 it represented a major change. Before then, the National Minimum Wage rate had been decided by the Government after receiving the recommendation of the Low Pay Commission. In making its recommendation, the LPC's purpose was to lift minimum rates as high as possible without damaging employment. However, the National Living Wage was placed on a different basis from the outset – a target rate of 60% of median earnings by 2020 – subject only to 'sustained economic growth'.

The National Living Wage came into operation just over a year ago and the first annual increase took effect on the 1st April this year. Further increases will need to be implemented in the three years 2018 -2020 before the 60% target is realised. Whilst businesses, on the whole, were able to digest the first year increase without a clearly noticeable effect on employment, there is – within the Hospitality and Tourism sector – a widespread and deeply felt level of concern that many businesses will not be able to easily digest a further three years of substantial real terms increases to their payroll costs.

The economic environment is uncertain: any fall in real living standards, perhaps accompanied by an increase in interest rates,

would quickly have an impact on revenues and as payroll costs account for circa 35% of total costs in many businesses, the National Living Wage increases will, inevitably, lead to margin erosion with negative consequences for employment and investment. The impacts will be felt harder in the hospitality industry than many others because 97% of our businesses are SMEs, employing fewer than 50 people. These scheduled increases are, of course, coming on top of recent increases to Business Rates, the Apprentice Levy, the costs of auto-enrolment and cost increases stemming from the 10% devaluation in Sterling over the last year.

We would therefore like to see the next government give the Low Pay Commission (LPC) the responsibility for recommending all future National Living Wage rate increases on exactly the same basis as it does for the National Minimum Wage suite of rates. No government – of any colour – has ignored the recommendation of the LPC, and we believe that the Commission’s track record of objectivity and independence provides a secure basis for policy formulation in this area.

In addition, the National Living Wage and National Minimum Wage have a clear regional dimension. Labour market pressures in London and the South-East mean that the overwhelming majority of businesses pay above the NLW, but in other English regions, and in Scotland, Wales and Northern Ireland, there are more employees who are paid at or just above the National Living Wage minimum. It is businesses in these regions which, in tougher trading environments, would have no ‘buffer’ to insulate them from substantial margin erosion and are at the greatest risk of reducing their employment levels or curtailing investment.

3. Drive competitiveness through the reduction of VAT to 5% on visitor accommodation and attractions

The BHA believes that the best way for political parties to show their commitment to the country's fourth largest industry would be **to pledge to reduce VAT on accommodation and attractions to five per cent**. The call is backed by thousands of hospitality and tourism businesses across the UK, and was supported by 172 MPs in the last Parliament and by representatives from the Scottish, Welsh and Northern Ireland devolved legislatures.

Coastal communities are dependent on the hospitality and tourism industry, which employs 873,000 people across coastal local authorities in the UK, and are in desperate need of government support to boost private sector investment. Businesses and MPs in coastal communities across the UK have called for a reduction in Tourism VAT.

Britain can be proud of its very strong tourist offer, but the market is price-sensitive and high taxes make it difficult for Britain's tourism businesses to be competitive, so much so that the World Economic Forum has ranked the UK **second to bottom** (135 out of 136 tourism economies) in terms of price competitiveness.² With visitor arrivals to Europe set to increase from 475 million to 744 million by 2030, it is essential that Britain should be well-placed to take a share of this growth and beat off nearby rivals who have more favourable taxation regimes for tourism.³ Reducing Tourism VAT would bring the UK into line with competitor tourist destinations, as 31 other

² http://www3.weforum.org/docs/WEF_TTCR_2017_web_0401.pdf

³ <http://arcticjournal.com/sites/default/files/9789284418145.pdf>

European countries already recognise and reap the benefits of having a reduced rate of Tourism VAT.

Furthermore, a reduction in Tourism VAT on accommodation and attractions would become revenue neutral in two years, and over ten years would raise £4.6bn for the Treasury, when increased economic activity is taken into account. Reducing Tourism VAT would also create 121,000 new jobs, provide a lifeline to SMEs which make up 80% of the industry, and improve the UK's balance of trade by £23bn over ten years. It would provide a lifeline to businesses across the UK and support British families who holiday at home.

We call on all political parties to support this easy and quick-to-implement policy which will make a real difference to the UK economy, and especially to areas which most need a boost in private sector investment.

4. Business Rates and Capital allowances

Both the 'digital and creative industry' and the hospitality industry have been key players in the jobs recovery in the UK over the past four years. However, while the digital and creative industry has received support in the form of tax relief from the UK Government, the hospitality and tourism industry has not.

The hospitality sector is the tenth most capital intensive industry, with £7bn in 2016 in fixed capital investment, and contributed circa £38 billion in direct tax receipts that year.

A report in May by Ignite Economics, for the BHA, found that since the economic downturn, hospitality has returned the highest level of labour productivity growth of any industry – more than double the growth rate of the overall UK economy. Furthermore, the industry has reduced its capital output ratio by over 10%, showing a significantly improved use of capital, at a time when the capital efficiency of the overall UK economy has deteriorated.

The hospitality and tourism industry is facing a ‘perfect storm’ due to increases in business rates, increased payroll costs and the impact of Brexit. Now this is being compounded by delayed capital investment in the industry. Hotels are facing an average rateable value rise of 23%. Restaurants and pubs face massive increases too, notwithstanding the £1,000 a year rebate given to pubs in the budget, which works out at £20 a week. As a result, businesses are having to further cut costs and cut investment. **This ‘tax on success’ is counterproductive and the next government should commit to a fundamental and immediate review of business rates in England, capital allowances and tax relief across the UK to ensure that “bricks and mortar” industries are not unfairly hit. We will continue to work with the devolved governments to ensure the Business Rates system is fair to hospitality businesses across the UK.**

Businesses must be consulted with and be able to input into the formation of the new system.

Key BHA manifesto recommendations:

- Ensure that the new immigration system takes account of the needs of industries which are reliant on service workers from the EU and puts in place a sensible, ten-year phased approach to allow time for the recruitment of UK workers where this is possible.
- Ensure that the UK has an evidence-based approach to the setting for 'immigration quotas' post Brexit, ideally enlarge the role of the Migration Advisory Committee.
- Reduce Tourism VAT on accommodation and attractions to 5% to allow the United Kingdom to compete on a level playing-field against rival destinations in Europe.
- Commit to the National Living Wage being set by the Low Pay Commission.
- To alleviate the impact of the National Living Wage, extend the relief on employers' NICs contributions for under 21s to all workers under the age of 25.
- Commit to a fundamental and immediate review of business rates, capital allowances and tax relief to ensure that "bricks and mortar" industries are not unfairly hit, particularly in comparison with digital based businesses.
- Deliver a comprehensive coastal tourism strategy with which to attract the investment which our coastal communities need in order to reach their full economic and social potential.
- Move the hospitality and tourism brief to sit under DBEIS or create a joint role with DCMS, to reflect the importance to the economy of the UK's fourth largest industry.
- Include a hospitality and tourism representative on the UKTI board, with tourism recognised as a leading British export industry (sixth largest export earner) in UKTI's strategy.