

Mr Simon Blake
Secretary to the Low Pay Commission
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London EC4Y 8JX

Dear Mr Blake,

Thank you for inviting the British Hospitality Association to submit evidence in response to the Commission's letter of 29 July.

As in 2014, each of the following associations (the British Hospitality Association, the British Beer and Pub Association, Business in Leisure, and the Association of Licensed Multiple Retailers) is sending its own letter to bring out the specific market situations in our separate sectors. We are also submitting as an attachment the comments made by BHA members who responded to a survey seeking views on the impact of the National Living Wage on jobs and on profitability through to 2020. The survey produced 120 useable replies from businesses with a combined turnover of close to £1.8 billion and with a combined total of some 58,000 employees.

The British Hospitality Association represents the hotel, restaurant and catering industry. Our members employ over 500,000 people across the United Kingdom and operate over 300,000 hotel rooms, as well as chain and independent restaurants, serviced apartments, members' clubs, contract catering operations, and visitor attractions.

ECONOMIC OUTLOOK

The Hospitality industry has experienced a strong level of growth in recent years and a recent study prepared by Oxford Economics showed that 17% of all the net new jobs created in the UK in 2010-14 were in Hospitality. As the industry is a significant employer of young people, it's clear that the welcome reduction in youth unemployment (although still above the OECD average) can, in part, be attributed to the Hospitality industry.

In terms of future outlook, leaving aside the general level of UK economic growth, the Hospitality industry will be affected by the number of international visitors (a highly competitive market); domestic tourism (where volumes are in decline caused in part by our price competitiveness because of VAT); levels of corporate and leisure spending; and future levels of public expenditure which will have a material impact on the food management or catering sector.

In common with most forecasters a year ago, we had thought that interest rates would rise during 2015. Again, it is the view of most forecasters that rates will rise during 2016. Were this to happen, it is probable that there will be a significant squeeze on consumers' discretionary spend which will have a clear impact on the Hospitality sector. Whilst it is true that real wages are increasing and an increase in interest rates would benefit savers, the higher interest payments on mortgages and credit card debt is likely to have a depressive effect on leisure spending because of the very high levels of personal indebtedness in the economy.

The fusion of lost revenue because of rate rises with the substantial increase in the Hospitality pay-bill arising from the introduction of the NLW in April 2016 (adding hundreds of millions of pounds of additional costs according to conservative estimates) would be very damaging to present and future levels of employment and business investment. A report by the Resolution Foundation, published last month, showed that the Hospitality sector would be ‘hardest hit’ by the introduction of the NLW. We have a number of recommendations, set out at the end of this letter, about the future remit of the LPC because of the introduction of the NLW.

We make the following comments about each sector within Hospitality on regional and employment trends, and productivity as follows:

(i) Developments in Hotels

The improvement in the hotel business has continued. According to HotStats, which collects data on occupancy and room rates, for the first half of June occupancy across the UK was 0.5 points up on 2014 at 74.4 per cent, and the standard metric, Revenue per Available Room, was up 2.1 per cent at £75.99, while payroll costs as a percentage of sales were 0.1 point down at 29.4 per cent.

(ii) Developments in Restaurants

The latest data from the Coffee Peach Tracker, which samples sales across 30 pub and restaurant chains, indicate that like-for-like growth in the 12 months to June 2015 was 1.7 per cent (2.4 per cent in London and 1.4 per cent outside). This reflects the generally more buoyant conditions in London than elsewhere.

(iii) Developments in Catering

The contract catering/food and service management sector continues to grow steadily in terms of private sector clients. However, prospects for contracts in the public sector are affected by slow progress in opening up public procurement to SMEs, particularly in this sector, and by the expected further cutbacks in public spending.

(iv) Employment

The industry has a good story to tell about its contribution to job growth. The latest data from Oxford Economics for the BHA indicate that direct employment in hospitality (defined below) rose from 2.588 million in 2010 to 2.919 million in 2014. There was particular strong growth in the restaurant/café sector (+ 158,000 or 27 per cent) and takeaway food shops (+46,000 or 39 per cent), but employment in public houses, bars and licensed clubs fell by 40,000 or 7 per cent. The total increase in hospitality employment was only exceeded by that in the business services sector.

(Oxford Economics defines hospitality as hotels and similar accommodation, holiday and other short let accommodation, camping grounds, recreational vehicle parks and trailer parks, other accommodation, restaurants, beverage serving activities, convention and trade show organisers, licensed clubs, takeaway food shops, event catering activities, in-house catering, and other food service activities.)

(v) **Regional Developments**

The data reflect changes in the relative situations of the different regions, with London increasing over the period 2010 to 2014 from 16.2 to 17.7 per cent of hospitality employment, South East England from 13.9 to 14.4 per cent, and the South West of England from 9.0 to 9.9 per cent. Hospitality in this region has the highest share of total regional employment at 10 per cent. The number of direct hospitality jobs increased in every region and nation of the UK, but Scotland, Wales and Northern Ireland all had reduced shares of total UK direct hospitality employment.

(vi) **Productivity**

Oxford Economics has estimated that, in 2014 but at 2011 prices, Gross Value Added of the hospitality industry was £57 billion, which was 3.9 per cent of the whole economy, whereas direct employment levels were 8.8 per cent of those for the whole economy. GVA was therefore £19,500 per head against £43,700 for the whole economy. However, it is important to note that the split between full- and part-time workers in hospitality is 50:50. This is reflected in GVA per head in restaurants being just £16,400, whereas it was £24,200 in hotels. GVA growth in hospitality was 12 per cent between 2010 and 2014 and indeed rose in every year from 1998 to 2014 except 2009.

Total turnover of the sector, according to Oxford Economics, was £118 billion in 2014, split between £24 billion in hotels and related, £57 billion in restaurants and related, £33 billion in catering, and £4 billion in event management.

Turning to the particular questions set out in your 29 July letter, our submission is as follows:

IMPACT OF NATIONAL MINIMUM WAGE

Whilst for some businesses – particularly in parts of the country with subdued economic growth – the real terms increases in the NMW have been difficult to absorb, the success and job creation of the Hospitality industry has shown that the LPC’s past recommendations on NMW rates have been well judged.

The planned increases for October 2015 were, largely, seen as affordable and reasonable and businesses had been making longer term plans for increases on this scale to reach £8.00 per hour (the common position of both of the main parties) by 2020. Such a path of increases was being viewed as being ‘at the top end’ of affordability and there was worry about the effect on small businesses of such increases.

NATIONAL LIVING WAGE AND FUTURE NMW RATES

The LPC has asked for views on the proposed timing of the NLW cycle (April review) and the National Minimum Wage cycle (October review), specifically mentioning whether they should be aligned in April. We favour a ‘common review date’ and recognise that this can only be in April because of the Chancellor’s announcement. We would recommend that the alignment takes place from April 2017 and that the October 2016 review of NMW rates is maintained – recognising that such rates would only be in force for six months.

Putting aside any concerns over the affordability of NLW/NMW rates, businesses would much prefer a single review date for implementing wage increases (which are complex because of the different age rates, etc) and that at least six months’ notice is given of the rates in order to allow time for planning.

We recognise that the LPC will be undertaking a second review on the NLW in 2016. However, it is difficult to put forward proposals for the NMW rates without setting out our views on the future path of increases to the NLW. On the assumption that the NLW will be £9.35 with effect from April 2020, we would prefer to see the annual increase (which is highly likely to be a significant real terms increase) set evenly in the range of 6.5 – 7.00%. Businesses will be able to plan more easily if this is known or presumed as highly probable.

The key issue for the LPC is to determine the relationship between the NLW and the NMW rates. Presently, using the planned figure for the NLW of £7.20 from April 2016 and the £6.70 for the NMW from October 2015, the NMW 21-24 year old rate is at 93% of the NLW rate with percentages reduced to 74%, 54% and 46% for the 18-20, 16-17 and Apprentice rates respectively.

We would like to see the LPC set out a vision for the NMW rates that is explicitly linked to a continuing reduction in the level of youth unemployment. Despite coming down in recent years, unemployment among 16-24 year olds in the UK is still above the OECD average and regions like Yorkshire and Humberside, the North East and North West are above the UK average. We believe that applying the likely NLW percentage rate increases to the NMW rate structures would have a damaging effect on youth employment and should be avoided.

Instead, we favour the construction of a pay system that fits with the recognised need to extend the number of youth training and apprenticeship schemes within the industry. The BHA have been working very hard over the last 2 years with member companies, the DWP and charities (in a campaign called The Big Hospitality Conversation) to increase the number of opportunities for young people.

For this reason, we feel that the LPC should set out a pathway for young people to grow their earnings through to the age of 25 when the NLW kicks in and the assumption may be made that they are ‘fully trained’. Maintaining the existing differential of 93% between the NMW and the NLW would be too expensive and we would favour increases to the NMW rates at about half the likely increases to the NLW. This would see the relationship decline from 93% to, approximately, a more manageable 85% by April 2020. This would still see a real terms increase and put the increases to these NMW rates on the level that had been anticipated by the LPC (before the Chancellor’s announcement on the NLW) as the right balance between ‘socially right’ and ‘economically affordable’.

The Hospitality Industry places attitude and a desire to work in service teams as much more important than academic prowess and we would ask that the LPC takes into account the fact that nearly half of Britain’s school-leavers do not obtain 5 GCSE passes at A*-C including English and Maths. Many industries and sectors are effectively closed to them as a result and it’s important that the pathway to a rewarding and successful career in Britain’s Hospitality sector is still open. If youth rates are too high, businesses will not hire in the same number.

ACCOMMODATION OFFSET

As the Commission will be aware, we were pleased at its decision last year that the Accommodation Offset, which is of particular importance to hotels, should begin to rise faster than the main NMW rates. The 5.3 per cent increase, just introduced, is welcome. However, the Commission’s intention to raise the Offset towards £6.31 has, in our view, been overtaken by the introduction of the National Living Wage and we would urge that the Commission recommended the introduction of a higher Offset for those receiving the National Living Wage. We should be pleased to discuss this in more detail.

CONCLUSION

In the past, the LPC's consultation exercises have not had a 'specific end point' in mind. The LPC has, rightly, wanted to increase the NMW by as much as possible without harming employment levels. We have been supportive of the LPC's approach because of its rigour, independence and objectivity. But the Chancellor's announcement on the NLW has laid out what should be the rate in 2020 and, as things stand presently, only issues relating to staging and the below 24 NMW rates will be looked at by the LPC.

Last month's Resolution Foundation report highlighted the fact that the introduction of the NLW 'takes us beyond the borders of the current evidence base' and went on to suggest that 'by putting the LPC at the heart of the NLW process' the Government will 'give the NLW the greatest chance of success for employees and manageable for employers.....the Government should reinforce that the LPC has the freedom to recommend deviating from the path to 60% [of median earnings] if it has significant concerns about employment effects. The Resolution Foundation has called for the LPC to be given additional powers and resources to allow it to act as a look-out, identifying possible road blocks ahead and developing solutions to ensure this move into uncharted territory has the best possible navigation.'

We support this recommendation and will be making representations to the Government to this effect. We are particularly concerned at the potential impact of the NLW on smaller businesses in those parts of the UK which are struggling to attract business and visitors and will be highlighting the importance of measures to support British Hospitality and Tourism and the jobs which are dependent upon it.

Yours sincerely

**MARTIN COUCHMAN
DEPUTY CHIEF EXECUTIVE**