

OXFORD ECONOMICS

**Economic contribution of
UK hospitality industry**

Final report

September 2010

**Report prepared by Oxford Economics for
the British Hospitality Association**



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Summary

Current contribution

- The core hospitality economy today (2010 estimate) has an estimated turnover of £90 billion and is worth £46 billion to the UK economy in GVA (wage and profits) terms¹, and directly contributes 2.44 million jobs (1 in 13 of total jobs), and over 1.2 million jobs through multiplier effects [the sum of indirect (supply chain) and induced (direct and indirect employee-spend related) employment).
- 675,000 of the multiplier jobs are via supply-chain purchases, with two-thirds of these in three sectors – manufacture of food, beverages & tobacco, agriculture and business services.
- With 2.44 million direct jobs representing just below 8% of total employment, this makes the hospitality economy the UK's 5th biggest industry in employment terms, ahead of other broad sectors such as financial service, transport & communications and construction, and similar in scale to education. The 2.44 million jobs include an estimate of employment in in-house catering across non-hospitality sectors (377,000 jobs) and temporary agency employment in hospitality (167,000 jobs). (Note the ranking of industry contributions, when measured in GVA terms, is not the same due to differences in sector productivity levels)
- The core hospitality economy is estimated to directly contribute £34 billion in tax revenue to the Treasury, which includes, among other tax categories, VAT on sales, excise duty on 'on-site' alcohol consumption, corporation tax, income tax and national insurance contributions. This is equivalent to just over 6% of total Exchequer annual tax receipts.
- Estimates of exports, or attributable in-bound spending from core hospitality, indicate that the industry accounts for £7.4 billion of foreign exchange export earnings, which represents 1.8% of total export earnings. Clearly there is overlap here with tourism's contribution to export earnings. Overseas visitor spend in 2010 in the UK is estimated at £16.9 billion (this includes spend on visitor attractions etc which do not fall under the definition of hospitality). The ratio of hospitality to tourism in-bound spend is broadly in line with, for example, the hospitality sector share of overseas' visitor spend, according to both the Department for Culture, Media and Sports (DCMS) First Steps Tourism Satellite Accounts and BHA data for 2008.
- On average, 4.2% of total investment in the economy is made by the hospitality economy, helping to sustain 61,000 jobs, with 39,000 of these jobs in construction and related activities (e.g. plumbing, plastering, lift installation etc). This share and level of investment will of course vary over time in line with wider economic and specific industry conditions and prospects. Note these jobs are in addition to the sum of the direct 2.44 million and multiplier 1.2 million jobs described above.

¹ 2005 constant prices

Summary of UK hospitality economy economic contribution (2010)

	2010
Direct contribution	
Employment (000s)	2,441
Hotel & related	403
Restaurant & related	1,263
Catering	754
Event management	20
Turnover (£bn)	90.4
GVA (£bn 2005 prices)	46.3
Exchequer tax revenue (£bn)	34.0
Exports / in-bound spend (£bn)	7.4
Investment (£bn)	7.9
Related direct employment (000s)	61
Indirect and induced contribution	
Indirect	
Employment (000s)	675
GVA (£bn 2005 prices)	27
Induced	
Employment (000s)	565
GVA (£bn 2005 prices)	23

Source: Oxford Economics

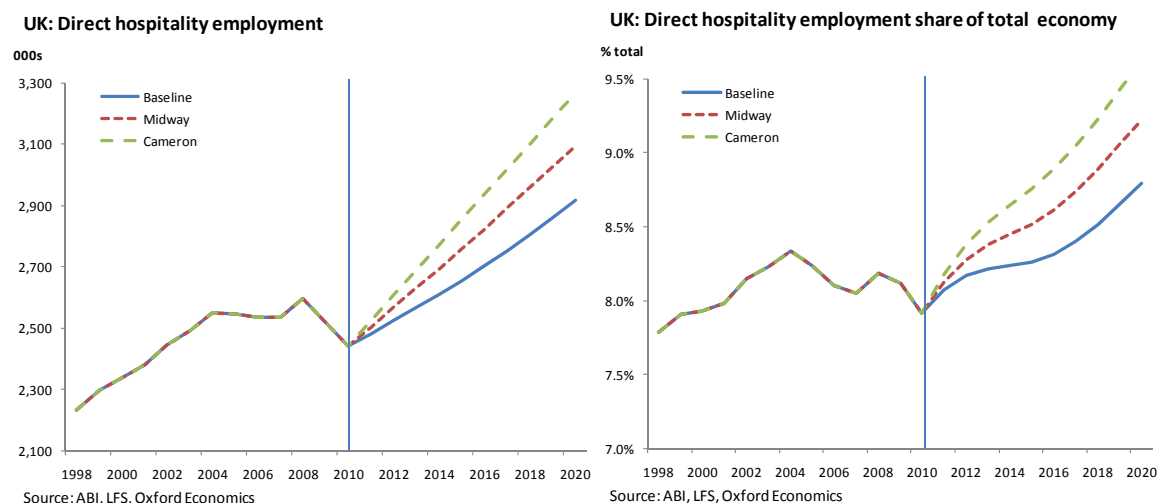
Future contribution

- In terms of looking ahead at the potential future contribution of the hospitality economy, three scenarios are considered in this report:
 1. A trend baseline scenario, derived by extrapolating UK resident and overseas visitor performance and hospitality employment in line with average growth in the decade prior to the recession.
 2. A 'Cameron 50:50' scenario, based around the Prime Minister's August speech and call for a 50:50 balance between UK resident visitor spend in the UK and overseas (this target is assumed to be reached by 2015 in the scenario). Prior to the recession, the UK : overseas ratio of UK resident visitor spend was 36% to 64% in favour of overseas spend. Built into this scenario also is above-trend growth in overseas visitors to and spend in the UK.
 3. A 'midway' scenario with visitor assumptions between the trend baseline and 'Cameron 50:50' scenario.
- Note assumptions and impacts across the three scenarios vary significantly and consequently have differing degrees of probability of being achievable. The 'Cameron 50:50' scenario is the most extreme and least likely to be realised, given the implied large shift in UK resident overseas spend towards the domestic market. Under this scenario, there would be over one-quarter fewer UK resident visitors in 2015 travelling overseas compared to the recent peak, and UK resident visitor spend would have to rise by three-quarters by 2020 on current levels (and by almost half by 2015). Beyond the challenge of the

numbers, there are many other reasons why in practice the UK would struggle to achieve the targets of this scenario. These include: price competitiveness weaknesses in the UK hospitality / tourism sector (e.g. the rate of VAT on accommodation and hotel prices), the large number of UK residents with properties overseas (who presumably will still holiday abroad), the continued availability of low cost flights from the UK to mainland European and expanding destinations (many of which are cheaper destinations than the UK); the UK weather; and near-term capacity constraints in the accommodation sector, particularly around peak periods and for the holiday hotel / resort sector in which many of the additional UK resident holiday visitors in the 'Cameron 50:50' scenario might be expected to stay. Although over a sufficiently long timeframe clearly accommodation capacity could grow if the hospitality industry is supported, is able to access finance for investment and has confidence in the industry's future growth potential.

- The 'Midway' scenario, despite still being challenging, has a significantly higher likelihood of being realised, especially under certain conditions and interventions. These would include: a stronger depreciation in Sterling (boosting the UK tourism industry's price competitiveness), a reduction in VAT on accommodation to comparable levels in European competitor countries (although the prospect of this is unlikely given state of public finances and the coalition Government's aim to reduce the fiscal deficit), and greater marketing / promotion of the UK as a visitor destination for UK and non-UK residents.
- Under the trend baseline baseline scenario, the hospitality economy is forecast to grow to 2.66 million direct jobs by 2015 (215,000 net additional jobs compared to today). In other words, if past trends continued, there would be strong employment growth potential from the hospitality economy, including across the majority of UK regions. This would help to create employment opportunities for many of the UK's residents not currently in employment and whose skill profile would be sufficient to match the needs of the hospitality sector (this will not always be the case for some higher-skilled sectors and sectors where much of the employment growth will likely be concentrated in the Greater South East region).
- Under the 'Midway' scenario, the contribution of the UK direct hospitality economy could rise to 2.76 million jobs by 2015.

Direct hospitality employment contribution scenarios



Definition of UK hospitality economy

The defining activities of the hospitality economy are:

- The provision of accommodation, meals and drinks in venues that are outside of the home;
- Hospitality consumption occurs 'on-site' in the venue; and
- The creation of the context of consumption and management of consumption are activities that differentiate the hospitality industry from other businesses that provide accommodation, food and drink.

More specifically, the definition of the UK hospitality economy, for the purpose of this study and as agreed with the British Hospitality Association, comprises the following four elements:

- **Hotels & related services** (including camping grounds and other accommodation)
- **Restaurants & related services** (including pubs, takeaway food shops, licensed clubs and motorway service areas, where hospitality services are the main activity for the latter)
- **Catering** [including corporate hospitality / contract catering to both private clients (for example airlines) and public sectors clients, and in-house catering across non-hospitality direct sectors such as health and education]
- **Event management** (including conference and exhibition organisers)

The diagram below summarises the different activities above which fall under the core hospitality definition. In addition to these, but outside the core definition and not included in the economic contribution estimates, are other activities carried out by firms in the hospitality industry and members of BHA, which would be recorded under different sectors.

Non-core activities by hospitality firms outside the core hospitality industry

Other supply contract services such as management of prisons and hospitals, cleaning etc

1 Introduction and background

- This report, prepared by Oxford Economics, provides a comprehensive assessment of the economic contribution of the core UK hospitality industry to the wider UK economy.

1.1 Study scope and objectives

The aim of the study is to:

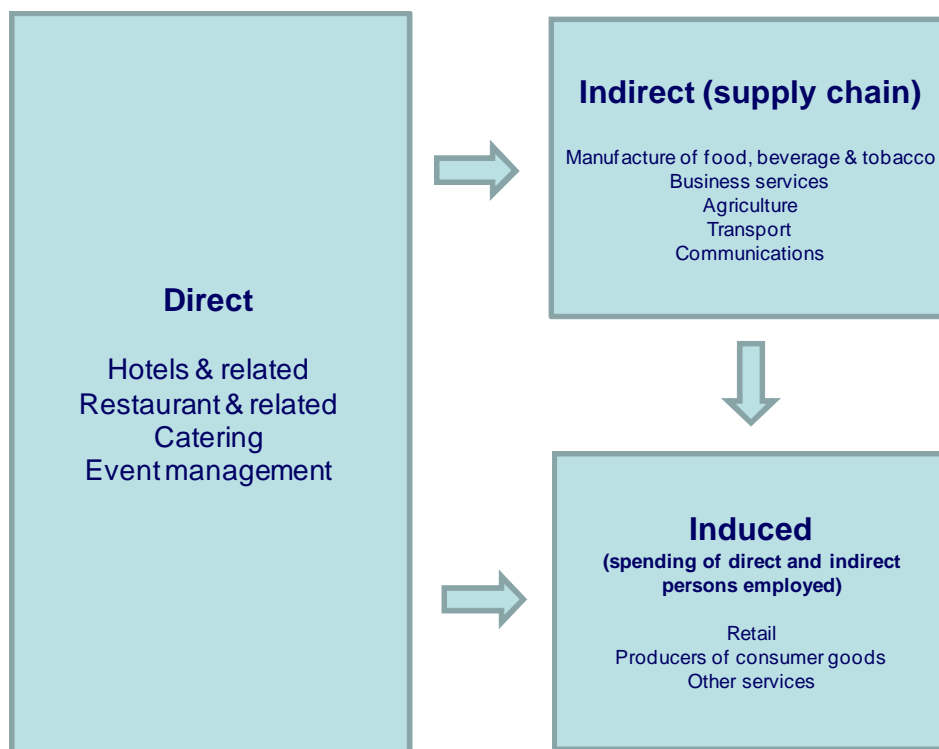
- Assess the various economic contributions that the hospitality industry makes to the wider UK economy; and
- Provide scenario analysis of the potential future contribution of the hospitality economy under a range of different assumptions.

1.2 The channels of economic impact

There are many channels through which the core UK hospitality industry makes a contribution to the UK economy. This contribution includes the following standard economic impacts:

- **Direct impacts** – employment and activity in the core UK hospitality industry itself.
- **Indirect impacts** – employment and activity supported down the supply chain to the core UK hospitality industry, as a result of UK hospitality firms purchasing goods and services from UK suppliers. This includes, for example, jobs in the manufacture of food & beverages, business services (such as advertising and market research), agriculture and communications.
- **Induced impacts** – employment and activity supported by those directly or indirectly employed in the core UK hospitality industry spending their incomes on goods and services in the wider UK economy. This helps to support jobs in the industries that supply these purchases, and includes jobs in retail outlets, companies producing consumer goods and in a range of service industries.
- There are also a number of additional economic catalytic impacts ('spillovers') which result from the wider role hospitality has on the economy. While not quantified in this report, they are discussed in section 3.2.

Fig 1.1: Channels of economic impact of the UK core hospitality economy



1.3 Background on BHA

- Established in 1907 by a group of hoteliers, BHA is the national trade association for the hotel, catering, restaurant and leisure industry. BHA is the leading representative of the various sub-components of the hospitality industry in Britain at a policy and government level.

“The Association (BHA) exists to ensure that the views of the British hospitality industry are represented in a forceful, coherent and co-ordinated way to government and policy makers in the UK and internationally, in order that its members’ businesses can flourish” BHA

- BHA lobbies on behalf of their members at local, national and international level. It provides advisory services for its members on matters such as legal advice, accountancy, tax and procurement. Members of the BHA also have regular opportunities to engage in networking with other members and organisations.

1.4 SIC sectors within the hospitality economy definition

- In order to utilise official statistics on the hospitality economy, it is partly necessary to take the definition, as set out at the start of this report, one stage further by identifying matching Standard Industrial Classification (SIC) codes, where relevant SIC codes exist. The matching SIC 2007 sectors are summarised in the table below. Further detail on these individual sub-sectors is provided in Annex A².

² It is important to flag from the outset some limitations associated with the use of SIC data. Given the hospitality sector operates not only in free-standing hospitality venues (e.g. hotels, pubs etc), but also provides back-up activities in a wide range of other venues, notably in travel (e.g. airports), leisure (e.g. sports stadia) and the public sector, the SIC approach is partly limited by only recording

- Note there are two important exceptions where SIC-based official data are not sufficient and are therefore not directly used for this study – in-house catering in sectors outside the core hospitality industry and temporary / agency employment across the hospitality industry, and specifically the catering sector. In-house catering is estimated using occupational data on the employment share of hospitality-related occupation roles³ in non-hospitality sectors. Temporary / agency employment across the hospitality industry is estimated using non-SIC sources, primarily the BHA Food and Service Management Survey for catering, as well as SIC data on employee jobs in SIC 7810 (activities of employment placement agencies) and SIC 7820 (temporary employment agency activities).

Table 1.1: UK core hospitality economy SIC definition

SIC 07		Hospitality sector	People 1 st sector footprint
5510	Hotels and similar accommodation	Hotel & related	Yes
5520	Holiday and other short stay accommodation	Hotel & related	Yes
5530	Camping grounds, recreational vehicle parks and trailer parks	Hotel & related	No
5590	Other accommodation	Hotel & related	No
56101	Licensed restaurants	Restaurant & related	Yes
56102	Unlicensed restaurants and cafes	Restaurant & related	Yes
56103	Take away food shops and mobile food stands	Restaurant & related	Yes
56301	Licensed clubs	Restaurant & related	Yes
56302	Public houses and bars	Restaurant & related	Yes
5621	Event catering activities	Catering	Yes
5629	Other food service activities	Catering	Yes
	In-house catering in sectors outside the core hospitality industry (estimated using occupational data)	Catering	No
8230	Convention and trade show organizers	Event management	Yes
	BHA Food and Service Management Survey (catering only)	Catering	No
7810	Share of activities of employment placement agencies	All	No
7820	Share of temporary employment agency activities	All	No

Note: This definition includes all hospitality activities within the People First sector footprint (the Sector Skills Council for hospitality, leisure, travel and tourism) as well as the additional activities of SIC 5530 and 5590, temporary employment estimates and in-house catering outside the core hospitality sector

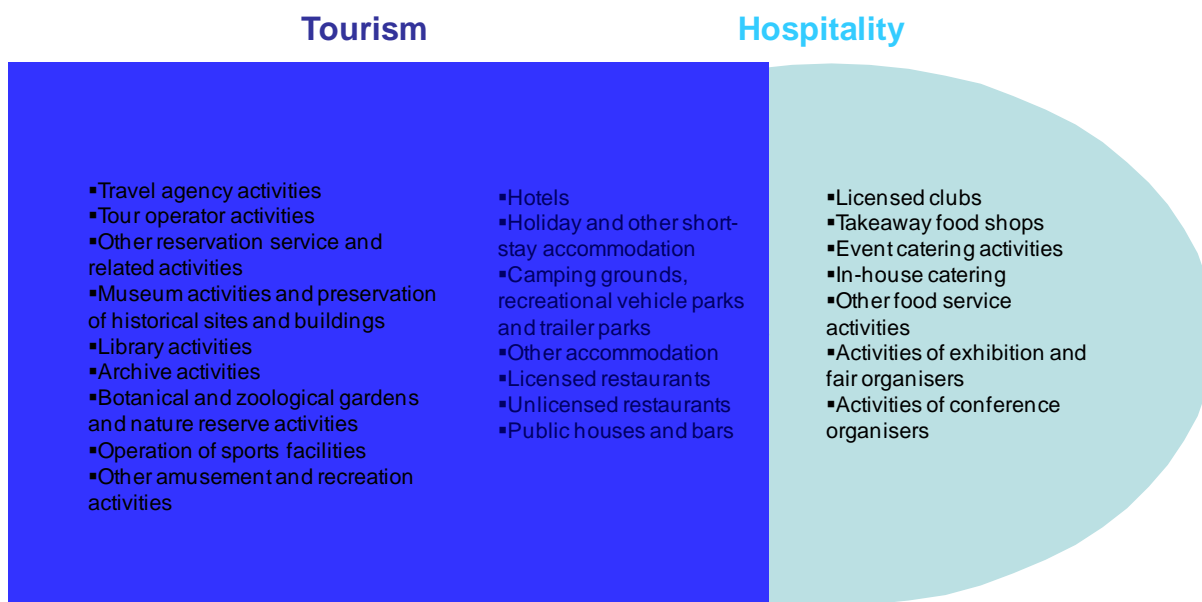
employment, turnover etc by the economic activity / sector of most economic value to the establishment in question (this also creates a challenge of separating out hospitality activities where a single establishment provides more than one hospitality service). That said, where establishments located in other venues are part of a chain or have separate owners to the venue, their employment will typically be classified under the sector of the main activity of the owner, as opposed to the sector of the venue where the establishment is located. This is the case for the Annual Business Inquiry (ABI) – the main data source used in this study for hospitality employee jobs. While there are therefore some weaknesses in the use of official SIC data for the hospitality economy, it is our view that the limitations of SIC data are relatively minor and should not be seen to affect the relative robustness of the economic contribution analysis contained within this report (as alternative approaches are adopted to address some of the SIC weaknesses). Indeed the majority of industry studies on respective contributions to the UK economy rely on the same data sources used in this report.

³ Bar staff, waiter / waitresses, kitchen and catering assistants, chefs, restaurant and catering manager roles etc

1.5 Overlap between hospitality and tourism

- While often grouped together as a single industry, the hospitality and tourism industries should be viewed as two individual sectors, however with a large degree of overlap.
- The tourism industry can be defined as “the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and purposes other than being employed in the place visited”⁴.
- As defined earlier, the hospitality industry covers the provision of accommodation, meals and drinks in venues that are outside of the home. These services are provided to UK and non-resident residents, and for every-day as well as visiting purposes.
- Fig 1.2 below illustrates the overlap and inter-related nature of the relationship between the tourism and hospitality industries. Definitions for both industries cover hotels, various accommodation, restaurants and public houses.
- Activities specific to the hospitality industry include catering activities, licensed clubs, conferencing and exhibition activities.
- Activities specific to the tourism industry include travel agency activities, museum activities, sports facilities and other amusement & recreational activities⁵.

Fig 1.2: Mapping of tourism and hospitality industries



⁴ http://www.un.org/esa/sustdev/natlinfo/indicators/methodology_sheets/econ_development/tourism_contribution.pdf

⁵ Note the SIC classification of tourism is based on a research paper on the tourism industry for the House of Commons Library (<http://www.parliament.uk/documents/commons/lib/research/rp2000/rp00-066.pdf>), with SIC 2003 sectors mapped to the SIC 2007 classification.

1.6 Economy and industry backdrop

- In the BHA Hospitality Handbook 2010, a number of impacts that the recession has had on the hospitality industry are identified. Most notable have been the decrease in hotel occupancy rates, the fall in restaurant revenues and insolvencies across the industry.
- The ONS Travel Trends 2009 publication also showed that the outflow of UK resident visits and expenditure abroad dipped significantly in 2009, compared to the previous largely unbroken upward trend since the early 1990s. Partly benefiting from this, the number of UK resident overnight visits in the UK rose in 2009 ('staycations'), following a steady period of decline. However overseas visits and overseas visitor spend in the UK also dipped sharply in 2009 as the global economy remained fragile and in recession in the early half of the year.
- Looking ahead, the UK hospitality industry will continue to face challenges, domestically and externally, from: weak growth in household consumption (as households re-build savings and wage earnings growth is muted), continued high unemployment and sluggish employment recovery, fragile consumer confidence, restricted corporate and public sector hospitality-related expenditure, uncertainties over the strength of the global economic recovery; and continued strong competition from overseas visitor markets.
- Visit Britain has also acknowledged a range of opportunities and threats to the tourism and hospitality industries in its forecasts for inbound tourism in 2010. Visit Britain consider the recent signals of increasing business tourism and the depreciation of Sterling against other major currencies as the vehicles to best deliver growth in the short-term. Government out-sourcing has also been identified as an opportunity for hospitality firms. However, there is still seen to be a growing threat from competition of low cost destinations and a continued reluctance of airlines to increase their capacity in the UK.
- The BHA has also identified a series of regulatory threats to the UK hospitality industry including:
 - VAT: The increase in VAT to 20% in 2011 will cause further downward pressure on domestic consumer spending, and erode the international competitiveness of the UK hospitality economy. All but four countries in the EU (the UK is one of these) have introduced lower VAT rates for accommodation. Also we understand, Denmark (1 of the 4) is considering reducing the rate of VAT on accommodation.
 - Policing and Crime Act: In England and Wales, the coalition Government has been consulting on a levy on premises open during the night and on powers to restrict night time opening (most so-called "24 hour licences" are held by hotels). In Scotland, proposals for a Social Responsibility Levy are before the Holyrood Parliament.
 - EU food labelling regulation: If approved, it could result in compulsory provision of nutritional information on restaurant menus.

1.7 Report structure

The remainder of this report is structured as follows:

- Chapter 2: A detailed analysis of the direct contribution that the core hospitality industry makes to the UK economy, covering employment, GVA, Exchequer tax revenue, exports / in-bound spending and investment.

- Chapter 3: An examination of the indirect and induced contributions that the hospitality industry makes to the UK economy, via supply-chain linkages and consumer spending of persons directly and indirectly employed by the industry. Plus a brief note on the potential catalytic contribution of the core hospitality economy.
- Chapter 4: Scenarios for the future contribution that the UK hospitality industry could make to the UK economy under a range of assumptions.

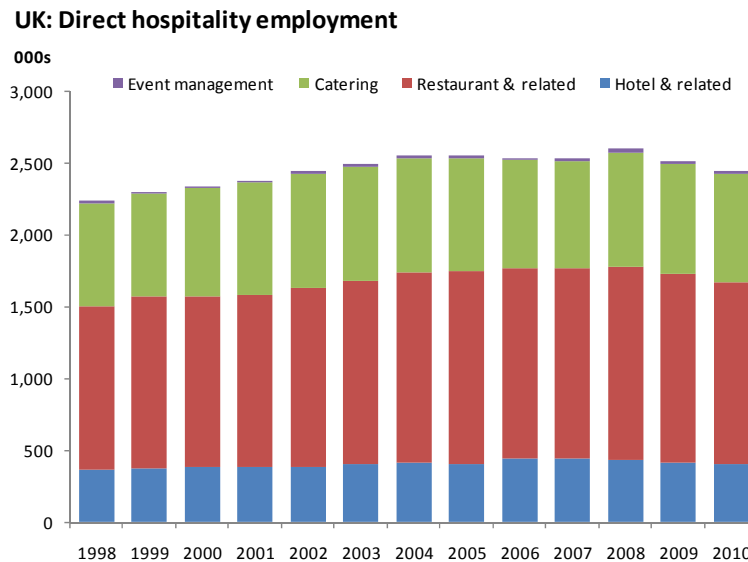
- Annex A: Detailed SIC code definition of UK hospitality economy
- Annex B: Technical notes
- Annex C: Scenario visitor assumptions and impacts

2 Direct contribution

2.1 Employment

- Employment in the core UK hospitality industry had been rising steadily since the late 1990s, up until the onset of the recession.
- Total direct employment in 2010 is estimated to be 2.44 million in terms of total jobs, including the self-employed. In full-time equivalent (FTE) terms⁶, total direct employment is estimated to be 1.78 million FTE jobs.
- With 2.44 million jobs representing just below 8% of total employment, this makes the hospitality economy the UK's 5th biggest industry, in employment terms, ahead of other industries such as financial services, transport & communications and construction, and similar in scale to education.
- These estimates (and our estimates for the core UK hospitality industry's contribution to GVA, exports / in-bound spend and investment presented below) are based on detailed data from the Annual Business Inquiry (ABI), Labour Force Survey (LFS), Office of National Statistics (ONS) input-output tables, other sources identified in chapter 1, and additional analysis.
- The level of detail used extends to coverage of 4-digit SIC 2007 sectors. Official published data for broader sectors is adjusted where necessary to focus solely on activities which fall under the BHA definition of hospitality. A more detailed technical overview of the estimation approach and sources used is provided in Annex B.

Fig 2.1: UK direct hospitality employment – sub-sectors



Source: ABI, LFS, Oxford Economics

⁶ One full-time job is equivalent to one FTE job and two part-time jobs are equivalent to one FTE job as per the standard approach

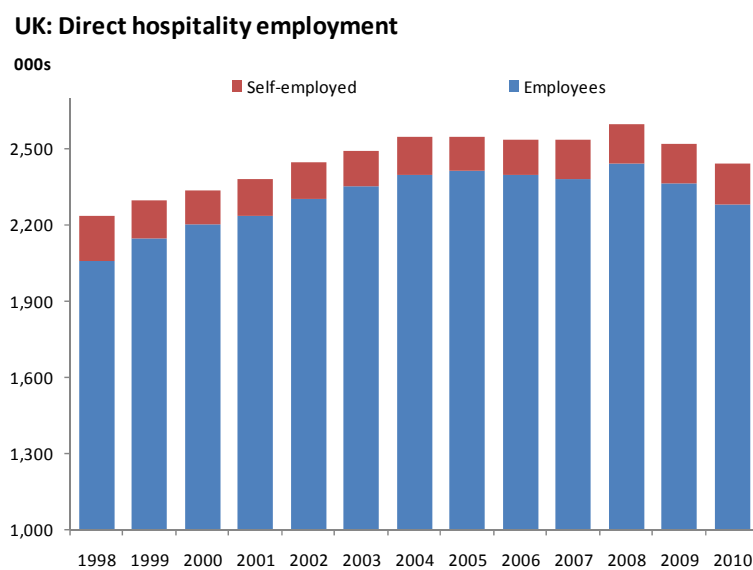
- Table 2.1 details the size, in terms of employment, of the different elements of the core UK hospitality industry. There are an estimated 400,000 jobs in hotels & related services; 1.26 million jobs in restaurant & related services; 750,000 contract catering and in-house catering jobs; and 20,000 jobs in event management. Note all of these figures include an estimate of temporary agency employment.
- Self-employment of 160,000 jobs across all four sub-sectors represents 6-7% of total hospitality employment.

Table 2.1: UK direct hospitality employment – sub-sectors

	1998 (000s)	2010 (000s)	1998 % total	2010 % total
Hotel & related	364	403	16%	17%
Hotels and similar accommodation	284	301	13%	12%
Holiday and other short stay accommodation	45	50	2%	2%
Camping grounds, recreational vehicle parks and trailer parks	19	29	1%	1%
Other accommodation	4	8	0%	0%
Temporary employment (estimate)	12	16	1%	1%
Restaurant & related	1,136	1,263	51%	52%
Licensed and unlicensed restaurants & cafes	426	558	19%	23%
Takeaway food shops	104	134	5%	5%
Licensed clubs	51	45	2%	2%
Public houses and bars	516	476	23%	19%
Temporary employment (estimate)	39	50	2%	2%
Catering	720	754	32%	31%
Event catering activities	260	254	12%	10%
Other food service activities	27	23	1%	1%
In-house catering	351	377	16%	15%
Temporary employment (estimate)	83	100	4%	4%
Event management	13	20	1%	1%
Convention and trade show organizers	13	19	1%	1%
Temporary employment (estimate)	1	1	0%	0%
Hospitality total	2,234	2,441	100%	100%

Source: ABI, LFS, Oxford Economics

Fig 2.2: UK direct hospitality employment – employee jobs and self-employed

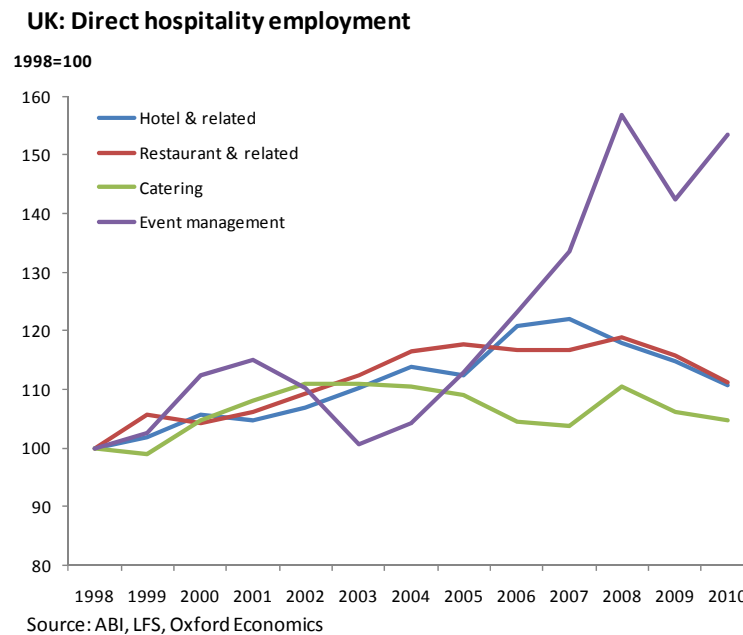


Source: ABI, LFS, Oxford Economics

The growth in core UK hospitality industry employment, by 206,000 net jobs between 1998 and 2010, mainly reflects:

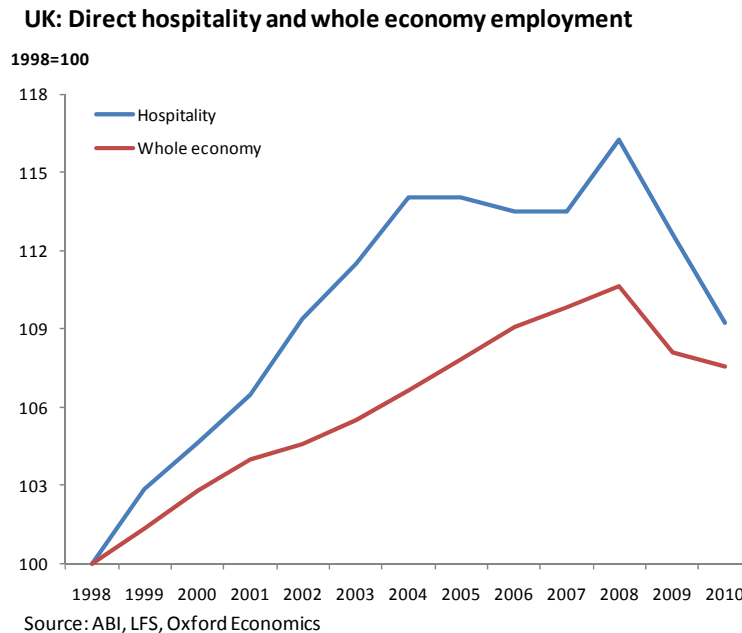
- 132,000 net additional jobs in licensed and unlicensed restaurants and cafes
- 30,000 net additional jobs in takeaway food shops
- 17,000 net additional jobs in hotels and similar accommodation
- 22,000 net additional jobs in other hotel & accommodation services
- 7,000 net additional jobs in event management
- Offset by 41,000 net job losses in public houses & bars, 5,000 net job losses in licensed clubs and 10,000 net job losses in contract catering (excluding in-house catering)
- Note the recession has somewhat distorted the long-term growth picture of some elements of the industry as indicated by the figures above. Between 1998 and 2008, for example, contract catering (excluding in-house catering) expanded by 5,000 net jobs and employment in public houses and bars, while fluctuating according to official data, was actually relatively stable. This means that taking out the effect of the recession, employment across all elements of hospitality over the last decade, with the exception of public houses and bars, licensed clubs and other food service activities, was rising.

Fig 2.3: UK direct hospitality employment – sub-sector indexed employment



- Overall, employment in the core UK hospitality industry increased faster than the whole economy between 1998 and 2008, in relative terms, but has declined more significantly during the recession (by an estimated 156,000 net jobs or 6% of total employment).

Fig 2.4: UK direct hospitality and whole economy indexed employment



- Regionally, London and the South East have the largest core hospitality industries. This is as expected given that these two regions are the largest in terms of the size of their economies and population, and London's role as a global visitor centre.
- Usefully, Table 2.2 illustrates how hospitality employment makes an important contribution to employment across all regional economies, with its share of total employment ranging from 7.2% in Yorkshire & Humber to 8.6% in Scotland.
- Measured per head of resident population, which helps to give some indication of external demand from outside the region (from domestic and overseas visitors, commuters etc), the highest concentrations of hospitality employment are in London, Scotland and the South West.

Fig 2.5: UK regional direct hospitality employment

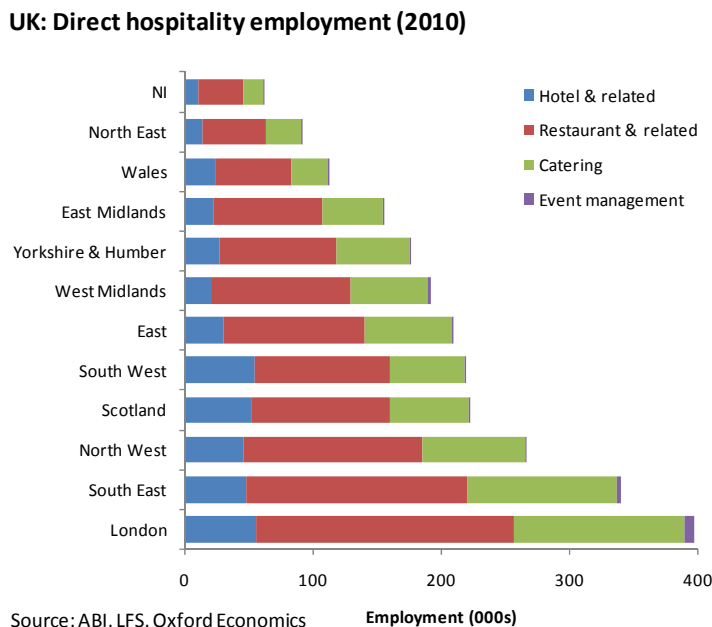


Table 2.2: UK regional direct hospitality employment concentration (2010)

	% total workplace employment (2010)	Per 1,000 resident population (2010)
North East	8.2%	35.2
North West	8.1%	38.5
Yorkshire & Humber	7.2%	33.3
East Midlands	7.4%	34.8
West Midlands	7.3%	35.1
East	7.5%	36.1
London	8.4%	50.7
South East	7.9%	39.9
South West	8.2%	41.5
Wales	8.3%	37.3
Scotland	8.6%	42.6
Great Britain	7.9%	39.4
NI	7.3%	33.8
UK	7.9%	39.4

Source: ABI, LFS, ONS, DETI, NISRA, Oxford Economics

2.2 GVA and turnover

- The standard method for calculating the direct contribution of an industry to GDP or GVA is to measure its so-called 'value added'. That is to calculate the difference between the industry's total pre-tax revenue and its total bought-in costs (i.e. costs excluding wages and salaries), adjusted for any changes in stocks.
- On this basis, we estimate that the core UK hospitality industry contributed around £46 billion to UK GVA in 2010 (2005 prices), 4.1% of the economy total. Using ABI ratios of GVA to turnover, total turnover generated by the hospitality industry is estimated to be £90 billion in 2010.
- This means that the core UK hospitality industry contributed 7 times more to GVA than agriculture, forestry & fishing combined.
- Table 2.3 shows the composition of core UK hospitality industry value added and turnover. Note hospitality's share of total economy GVA is lower than its employment share given its below average sector productivity (measured on a per job basis). This is partly explained by the high prevalence of part-time working in the industry and lower skilled nature of certain occupational roles. Measured on a FTE job basis, productivity in the hospitality industry is still only 60% of the economy average in 2010.

Table 2.3: UK direct hospitality GVA and productivity (2010)

	Employment (000s)	GVA (£bn 2005 prices)	Productivity (2005 prices)
Hotel & related	403	11	£28,100
Restaurant & related	1,263	21	£16,400
Catering	754	13	£17,700
Event management	20	1	£44,000
Hospitality total	2,441	46	£19,000
Whole economy	30,841	1,131	£36,700
Hospitality % whole economy	7.9%	4.1%	-

Source: ABI, LFS, ONS, Oxford Economics

2.3 Gross exchequer tax revenue

- The core UK hospitality industry is estimated to have contributed, in gross terms, around £34 billion to the Exchequer in 2010 (i.e. gross of tax relief and other fiscal support).
- This is equivalent to 6.2% of total Exchequer revenue.
- Just over one-third of tax revenues raised for the Exchequer in the hospitality industry arise from VAT on sales. Most of the remainder of tax revenue is from excise duty, corporation tax (gross of any tax relief⁷), income tax & national insurance contributions and indirect tax contributions associated with the spending of persons directly employed by the industry.
- Note VAT on sales is calculated by converting the GVA contribution of the hospitality industry into a turnover contribution (using ABI sub-sector ratios of GVA to turnover)⁸, adjusting this amount by a factor of 0.89 (to account for the estimated 11% of hospitality turnover which is non-VATable as this turnover originates from firms below the VAT threshold), and multiplying by a VAT rate of 17.5% (soon to rise to 20%). Given the Exchequer contribution estimates here are gross as opposed to net, we do not adjust gross turnover for the estimated 14% of turnover which is VAT reclaimable.

Table 2.4: UK direct hospitality exchequer tax revenue (2010)

	Tax revenue (£bn)	% total
VAT on sales	14.1	41%
Excise duty	3.3	10%
Corporation tax	6.4	19%
Income tax and NIC	4.2	12%
Indirect taxes from direct employee spending	4.9	14%
Other tax	1.1	3%
Hospitality total	34.0	100%

Source: Oxford Economics

2.4 Exports / in-bound spending

- Estimates of exports / in-bound spending from hospitality indicate that it accounted for £7.4 billion of foreign exchange export earnings in 2010, which is 1.8% of total export earnings. Clearly there is a degree of overlap here with tourism. Overseas visitor spend in 2010 in the UK is estimated at £16.9 billion, which also includes spend on non-hospitality activities such as visitor attractions.
- Exports / in-bound spending are based on input-output table metrics on the export / non-UK resident share of final demand across the hospitality industry.
- The ratio of hospitality to tourism in-bound spend is broadly in line with, for example, the hospitality sector share of overseas' visitor spend, according to both the Department for Culture, Media and Sports (DCMS) First Steps Tourism Satellite Accounts and BHA data for 2008.

⁷ This includes gross of deductions for capital allowances which the hotel sector has made significant use of via the Hotel Building Allowance.

⁸ Note our turnover estimates may be higher than published ABI turnover estimates given they are arrived at via ONS Regional Accounts GVA data.

2.5 Investment

- On average, 4.2% of total investment in the economy is made by the core hospitality economy. In 2010 gross fixed capital investment (excluding depreciation) by the industry is estimated to have been £7.9 billion.
- This is based on input-output metrics on the hospitality industry's investment spend as a share of total output, as opposed to bottom-up estimates of the number and average cost of new venue build etc.
- Note the gross fixed capital investment term referred to here is a national accounts definition and is wider than, for example, only construction spend on new hotels. It also include investment spend on items such as new furniture and equipment for hospitality venues, which in total make up half of hospitality investment, the other half being spent on construction activities.
- This level of investment spending is estimated to have sustained 61,000 jobs in 2010, with 39,000 of these jobs in construction. Other sectors in the supply chain of hospitality investment include manufacturing of furniture, manufacturing of equipment and IT providers.
- Note the 61,000 jobs are in addition to the 2.44 million direct core hospitality jobs above and the 1.2 million indirect and induced jobs (outlined in the next chapter).

3 Multipliers and supply chain linkages

- As well as the direct contribution of the core UK hospitality industry to the economy, there are indirect impacts on employment and GVA through the supply chain of the hospitality industry, and induced impacts from those directly and indirectly employed in the core UK hospitality industry using their earnings to buy other goods and services.
- **Note because the hospitality industry will purchase some of its supply chain from firms in the hospitality industry, and employees of the hospitality industry will spend some of their earnings in the sector, there is the potential in estimating multiplier impacts to double count the same hospitality job in both the direct and multiplier contribution. To avoid this, estimated indirect and induced employment in hospitality sectors from the direct core hospitality employment are not double-counted.**

3.1 Indirect and induced contribution

- For every 10 jobs directly in the core UK hospitality industry, another 5 are supported indirectly in the supply chain and from the induced spending of those directly or indirectly employed by the core UK hospitality industry⁹.
- Factors which affect the size of the industry’s multiplier impact include the import content of goods and services produced and average FTE wage levels of persons employed in hospitality.
- In aggregate terms, indirect employment in 2010 supported by the direct hospitality industry is estimated to be 675,000 jobs (contributing £27bn in GVA), and induced employment is estimated to be 565,000 jobs (contributing £23bn GVA).

Table 3.1: UK hospitality direct and indirect economic contribution (2010)

	Employment (000s)	GVA (£bn 2005 prices)
Direct hospitality	2,441	46
Indirect	675	27
Induced	565	23
Total	3,680	96
Total % whole economy	11.9%	8.5%

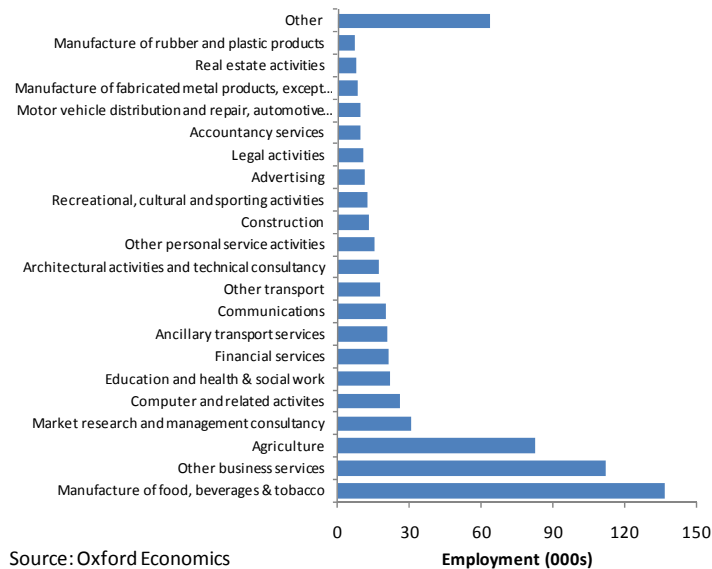
Source: ABI, LFS, ONS, Oxford Economics

- The estimated breakdown of the supported 675,000 supply chain jobs in 2010 is presented below. Two-thirds of these jobs are in three sectors alone – manufacture of food, beverages & tobacco; agriculture; and business services (sum of various individual business service sectors such as IT consultancy, legal services, accountancy services, advertising and market research).

⁹ This means that the type II employment multiplier for the core UK hospitality industry is estimated to be around 1.5. This analysis is based on latest UK input-output tables. Note the 1.5 figure is equivalent to the sum of direct, indirect and induced employment divided by direct employment. The multiplier value for GVA is higher at 2.0.

Fig 3.1: UK hospitality indirect supply-chain employment (2010)

UK: Hospitality - indirect employment (2010)



3.2 Catalytic contribution

- In addition to multiplier impacts, certain industries are also said to make a catalytic contribution to the wider economy. The value and form of this contribution can vary significantly across industries, ranging from technology spillovers to, for example, a raised international profile and tourism boost from major international events (e.g. the Olympics) and showcasing of a country's offering (e.g. the impact on UK tourism from Harry Potter movies filmed in the UK).
- Catalytic effects are perhaps best described as the extent to which the activities of an industry contribute to improved productivity and performance in other industries.
- While the catalytic contribution of industries can be quantified (although the analysis is complex), this is outside the scope of this study.
- Were the catalytic contribution of the core hospitality to be quantified, it is likely that this would involve looking at the catalytic contribution of the tourism sector (given the dependence of tourism on hospitality and vice versa), any spillover customer service effects from hospitality to other sectors, international reputation and image benefits, and possibly even softer benefits such as quality of life improvements.
- One additional catalytic benefit is the experience and skills brought by BHA members (and resulting efficiency / productivity gains), gained from providing contract catering services, to supply contract cleaning and management of hospitals and prisons etc (new markets which BHA members are entering).

4 Future scenario contributions

- The final chapter of the report provides scenario analysis of the future contribution of the hospitality economy under a range of assumptions. The three scenarios considered are:
 1. A trend baseline scenario, derived by extrapolating UK resident and overseas visitor performance and hospitality employment in line with average growth in the decade prior to the recession.
 2. A Cameron 50:50 scenario, based around the Prime Minister's August speech and call for a 50:50 balance between UK resident visitor spend in the UK and overseas. It is assumed that this 50:50 target is reached by 2015 and maintained at this ratio thereafter to 2020. Prior to the recession, the UK : overseas UK resident visitor spend ratio was 36% to 64% in favour of overseas spend. Also built into this scenario is above-trend growth in overseas visitors to and spend in the UK.
 3. A 'midway' scenario with visitor assumptions between the trend baseline and Cameron 50:50 scenario.

4.1 Trend baseline scenario

- Under the trend baseline scenario, the hospitality economy is forecast to grow to 2.66 million direct jobs by 2015 (215,000 net additional jobs compared to today).
- In other words, if past trends continued, there would be strong employment growth potential from the hospitality economy, including across the majority of UK regions. This would help to create employment opportunities for many of the UK's residents not currently in employment and whose skill profile would be sufficient to match the needs of the hospitality sector (this will not always be the case for some higher-skilled sectors and sectors where much of the employment growth will likely be concentrated in the Greater South East region).
- Of course in reality future visitor and hospitality employment trends may fluctuate from year-to-year around a longer trend, for example due to extreme weather or unforeseen events such as the 'ash cloud'. However looked at over a sufficiently long future period, trend extrapolation remains a useful guiding scenario, although it must be remembered that wider economic conditions will be different in the period 2010-2015 compared to the strong growth decade between 1998 and 2008.

4.2 Cameron 50:50 scenario

- As said above, the Cameron 50:50 scenario is based around the Prime Minister's August speech and call for a 50:50 balance between UK resident visitor spend in the UK and overseas. We assume that the 50:50 target is reached by 2015 and maintained at this ratio thereafter to 2020.
- Also built into this scenario is above-trend growth in overseas visitors to and spend in the UK (a 10% uplift on the trend baseline overseas visitor and spend level in 2020, which is interpolated back to 2010).
- Further detail on the Cameron 50:50 scenario assumptions are as follows:
 - The share of overnight UK visits of total overnight UK resident visits home and abroad is assumed to rise gradually to 70% by 2015. The share had previously been this high (or even higher) between 2001 and 2003, so is by no means implausible (although legacy 9/11 effects on travel destinations

may have impacted this earlier period, and low cost air travel is more prevalent than would have been the case then)

- The average spend per trip of UK residents shifting from overseas to domestic trips is assumed to be the same, which means for these particular visitors, the average spend in the domestic market would be significantly higher than the current average spend of UK residents taking overnight trips in the UK. What this will mean in practice is that those UK residents now taking trips in the UK are assumed to stay in serviced accommodation (as opposed to cheaper accommodation options) and their visit length is similar to typical average visits overseas (e.g. substitute a 2-week holiday abroad with a 2-week holiday in the UK).
 - The effect of this is to 'control' the overall total UK resident visitor spend to the same level across all scenarios, as we are not making any different domestic economic assumptions about income or consumer spending projections of UK residents.
 - As a result of these assumptions, the share of overnight UK visitor spend of total overnight UK resident visitor spend home and abroad is assumed to rise to around 50% by 2015 and remain at this level thereafter, i.e. the 50:50 split.
 - The impact on trips and spend overseas by UK residents is as follows. Following a dip during the recession and small recovery, overseas trips by UK residents continue falling up to 2015, while nominal UK resident overseas trip spend is flat (average spend per trip is assumed to rise).
 - A 10% depreciation in Sterling would contribute to about one-third of the 10% uplift in overseas visitors to the UK by 2020 (other factors such as marketing, special events and attractions etc would need to drive the additional uplift). Assuming no change from the baseline in average spend per trip, this equates to total overseas visitor spend in the UK also being 10% higher in 2020 than the baseline.
- Under the Cameron 50:50 scenario, the hospitality economy is forecast to grow to 2.86 million direct jobs by 2015 (414,000 net additional jobs compared to today and 200,000 more than in the trend baseline scenario). These additional jobs would be spread across the hospitality economy, but would primarily be in the restaurant and accommodation sectors.
 - Clearly the Cameron 50:50 scenario, when closely scrutinised, could be considered extreme and would have a low probability of being realised given the implied large shift in UK resident overseas spend towards the domestic market. Under this scenario, there would be over one-quarter fewer UK resident visitors in 2015 travelling overseas compared to the recent peak, and UK resident visitor spend in the UK would have to rise by three-quarters by 2020 on current levels (and by almost half by 2015).
 - Beyond the 'challenge' of these numbers, there are many other reasons why in practice the UK would struggle to achieve the targets of the Cameron 50:50 scenario. These include: price competitiveness weaknesses in the UK hospitality / tourism sector (e.g. the rate of VAT on accommodation and hotel prices), the large number of UK residents with properties overseas (who presumably will still holiday abroad), the continued availability of low cost flights from the UK to mainland European and expanding destinations (many of which are cheaper destinations than the UK); the UK weather; and near-term capacity constraints in the accommodation sector, particularly around peak periods and for the holiday hotel / resort sector in which many of the additional UK resident holiday visitors in the Cameron 50:50 scenario might be expected to stay. Although clearly in the long-run accommodation capacity can grow if the hospitality industry is supported, is able to access finance for investment and has confidence in the industry's future growth potential.

4.3 Midway scenario

- The 'Midway' scenario, despite still being challenging, has a significantly higher likelihood of being realised than the Cameron 50:50 scenario, especially under certain conditions and interventions. These would include: a stronger depreciation in Sterling (boosting the UK tourism industry's price competitiveness), a reduction in VAT on accommodation to comparable levels in European competitor countries (although the prospect of this is unlikely given state of public finances and the coalition Government's aim to reduce the fiscal deficit), and greater marketing / promotion of the UK as a visitor destination for UK and non-UK residents.
- Under the 'Midway' scenario, UK resident visitor spend in the UK rises gradually by 2015 to levels seen in recent years (and as a share stays stable at 40% of the UK visitor spend total). UK resident visitor trips overseas stay stable at its current recession lower level as opposed to the long-term upward trend. Overseas visitor trips to the UK grow slightly above the historic pre-recession trend.
- In the 'Midway' scenario, the contribution of the UK direct hospitality economy rises to 2.76 million jobs by 2015 and 3.09 million jobs by 2020, from 2.44 million currently.
- Note the knock-on visitor impact to the core UK hospitality industry is calculated as follows. Additional visitor spend above the trend baseline outlook is allocated across direct domestic industries using UK Tourism Satellite Accounts from the First Steps DCMS project. Multiplier impacts are modelled as before using the same input-output technique. Hospitality employment rises through both direct visitor spending in the industry and multiplier impacts.
- In the 'Midway' scenario, 236,000 net additional jobs are created in total in the economy by 2015. Of the 236,000 total net additional jobs, an estimated 102,000 would be in the hospitality sector (i.e. the figure outlined above).

4.4 Summary of scenario assumptions and impacts

- A summary of the key scenario assumptions and impacts are presented in the table and charts below. Additional charts are presented in Annex C.

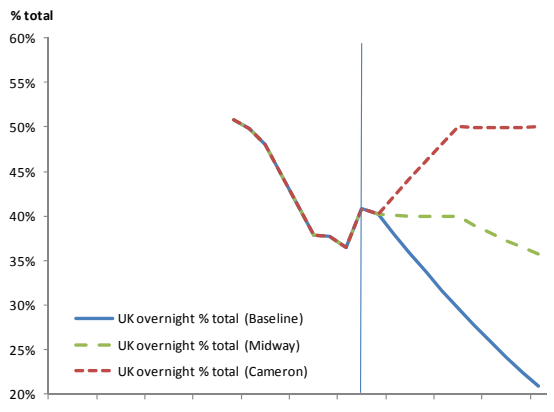
Table 4.1: UK visitor economy scenario assumptions and direct hospitality economy employment contribution

	2010	2015 (Trend baseline)	2015 (Midway)	2015 (Cameron 50:50)	Impact 2015 (Midway)	Impact 2015 (Cameron 50:50)
Visitor economy						
UK resident overnight visits in UK (m)	121.6	96.4	106.7	116.7	10.3	20.3
UK resident overnight visitor spend in UK (£bn)	21.9	18.8	25.4	31.7	6.6	12.9
UK resident visits overseas (m)	60.3	70.2	59.8	49.9	-10.3	-20.3
UK resident visitor spend overseas (£bn)	32.4	44.6	38.0	31.7	-6.6	-12.9
Overseas resident visits to UK (m)	31.1	34.6	35.7	36.7	1.2	2.1
Overseas resident visitor spend in UK (£bn)	16.9	19.2	19.9	20.4	0.6	1.2
Visitor spend balance of payments (£bn)	-15.5	-25.4	-18.2	-11.3	7.2	14.1
Hospitality economy						
Direct employment (000s)	2,441	2,656	2,758	2,855	102	199

Source: Oxford Economics

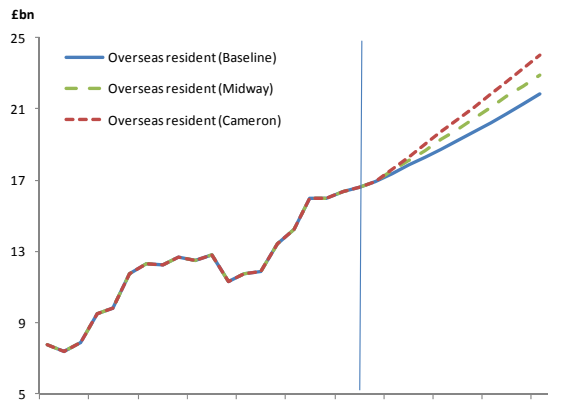
Figs 4.1 and 4.2: Domestic and overseas visitor scenarios

UK: Domestic resident visitor spend - % total



Source: UKTS, ONS, Oxford Economics

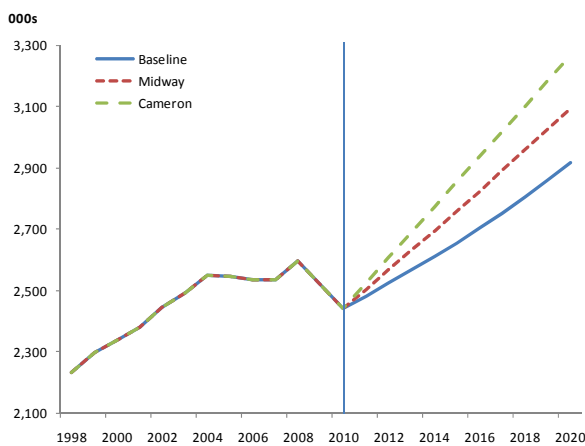
UK: Visitor spend in UK - overseas residents



Source: ONS, Oxford Economics

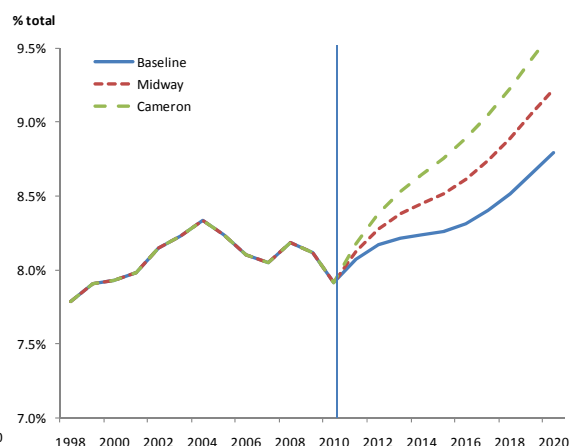
Figs 4.3 and 4.4: Direct hospitality employment contribution scenarios

UK: Direct hospitality employment



Source: ABI, LFS, Oxford Economics

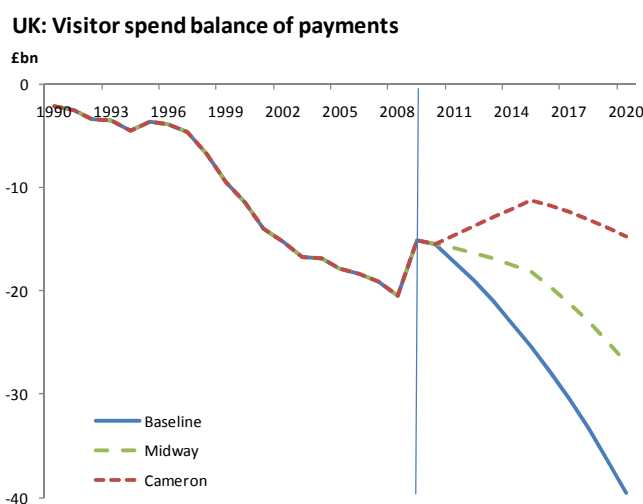
UK: Direct hospitality employment share of total economy



Source: ABI, LFS, Oxford Economics

- A useful validation check on the scenario assumptions and impact is to look at the visitor spend balance of payments forecast (overseas visitor spend in UK minus UK resident visitor spend overseas). This shows a reversal in the longstanding widening deficit trend (save for the recession) under the Cameron 50:50 scenario, again emphasising how, given historical performance, this scenario looks unrealistic.
- The deficit trend remains on a downward path for the 'Midway' scenario, although a less steep path compared to the trend baseline scenario. Again this provides evidence that the 'Midway' scenario has a higher likelihood of being realised

Fig 4.5: UK resident visitor spend balance of payments



Source: ONS, Oxford Economics

- Note as a final set of analysis, it is useful to extend the scenario analysis by estimating what the impact would be on the UK hospitality economy if the share of overnight UK visits of total overnight UK resident visits home and abroad increased today by 1%, 2% etc. This impact is estimated in exactly the same way as above and shows that:
 - A 1% increase in the share of overnight UK visits of total overnight UK resident visits home and abroad in 2010 would increase UK hospitality employment by 14,000 jobs (and wider economy employment by an extra 18,000 jobs).
 - A 2% increase in the share of overnight UK visits of total overnight UK resident visits home and abroad in 2010 would increase UK hospitality employment by 28,000 jobs (and wider economy employment by an extra 36,000 jobs).

Table 4.2: UK visitor economy scenario assumptions and direct hospitality economy impact

	Increase in share of overnight UK visits of total overnight UK resident visits home and abroad	
	1%	2%
Visitor economy		
UK resident overnight visits in UK (m)	1.8	3.6
UK resident overnight visitor spend in UK (£bn)	1.0	2.0
UK resident visits overseas (m)	-1.8	-3.6
UK resident visitor spend overseas (£bn)	-1.0	-2.0
Hospitality economy		
Hospitality employment (000s)	14	28
Other industry employment (000s)	18	36

Source: Oxford Economics

Annex A: Detailed SIC code definition of UK hospitality economy

Hotels & related services

SIC 2007		Description	Includes	Excludes
5510	Hotels and similar accommodation	<p>This includes the provision of accommodation, typically on a daily or weekly basis, principally for short stays by visitors. This also includes the provision of furnished accommodation in guest rooms and suites.</p> <p>Services include daily cleaning and bed-making. A range of additional services may be provided such as food and beverage services, parking, laundry services, swimming pools and exercise rooms, recreational facilities as well as conference and convention facilities</p>	<p>Hotels Resort hotels Suite/apartment hotels Motels Pubs with accommodation where accommodation services are the main economic activity</p>	<p>Provision of homes and furnished or unfurnished flats or apartments for more permanent use, typically on a monthly or annual basis (SIC 68)</p>
5520	Holiday and other short-stay accommodation	<p>This includes the provision of accommodation, typically on a daily or weekly basis, principally for short stays by visitors, in self-contained space consisting of complete furnished rooms or areas for living/dining and sleeping, with cooking facilities or fully equipped kitchens.</p> <p>This may take the form of apartments or flats in small free-standing multi storey buildings or clusters of buildings, or single storey bungalows, chalets, cottages and cabins. Very minimal complementary services, if any, are provided</p>	<p>Children and other holiday homes Visitor flats and bungalows Cottages and cabins without housekeeping services Youth hostels Mountain refuges</p>	<p>Provision of furnished short-stay accommodation with daily cleaning, bed-making, food and beverage services (SIC 551)</p> <p>Provision of homes and furnished or unfurnished flats or apartments for more permanent use, typically on a monthly or annual basis (SIC 68)</p>
5530	Camping grounds, recreational vehicle parks and trailer parks	<p>This includes provision of accommodation in campgrounds, trailer parks, recreational camps and fishing and hunting camps for short stay visitors, provision of space and facilities for recreational vehicles and accommodation provided by protective shelters or plain bivouac facilities for placing tents and/or sleeping bags</p>		<p>Mountain refuges, cabins and hostels (SIC 5520)</p>
5590	Other accommodation	<p>This includes the provision of temporary or longer-term accommodation in single or shared rooms or dormitories for students, migrant (seasonal) workers and other individuals</p>	<p>Student residences School dormitories Workers hostels Rooming and boarding houses Railway sleeping cars</p>	

Restaurants & related services

SIC 2007		Description	Includes	Excludes
56101	Licensed restaurants	This includes the provision of food services to customers, whether they are served while seated or serve themselves from a display of items. The meals provided are generally for consumption on the premises and alcoholic drinks to accompany the meal are available	Restaurants Coffee shops Cafeterias Fast-food restaurants Restaurant and bar activities connected to transportation, when carried out by separate units (e.g. motorway service areas)	
56102	Unlicensed restaurants	This includes the provision of food services to customers, whether they are served while seated or serve themselves from a display of items. The meals provided are generally for consumption on the premises and only non alcoholic drinks are served	Restaurants Coffee shops Cafeterias Fast-food restaurants Restaurant and bar activities connected to transportation, when carried out by separate units (e.g. motorway service areas)	
56103	Take away food shops and mobile food stands	This includes the provision of food services to customers to take away or to have delivered. This includes the preparation and serving of meals for immediate consumption from motorised vehicles or non-motorised carts	Take-out eating places Mobile food carts Food preparation in market stalls	Retail sale of food through vending machines (SIC 4799)
56301	Licensed clubs	This includes the preparation and serving of beverages for immediate consumption on the premises by nightclubs and social clubs	Nightclubs	Reselling packaged/prepared beverages (SIC 47) Retail sale of beverages through vending machines (SIC 4799)
56302	Public houses and bars	This includes the preparation and serving of beverages for immediate consumption on the premises by bars, taverns, cocktail lounges, discotheques licensed to sell alcohol (with beverage serving predominant) and beer parlours	Pubs with accommodation where pub services are the main economic activity	Reselling packaged/prepared beverages (SIC 47) Retail sale of beverages through vending machines (SIC 4799) Operation of discotheques and dance floors without beverage serving (SIC 9329)

Contract catering

SIC 2007		Description	Includes	Excludes
5621	Event catering activities	This includes the provision of food services based on contractual arrangements with the customer, at the location specified by the customer, for a specific event	Corporate hospitality catering	Manufacture of perishable food items for resale (SIC 1089) Retail sale of perishable food items (SIC 47)
5629	Other food service activities	This includes industrial catering, e.g. the provision of food services based on contractual arrangements with the customer, for a specific period of time. Also included is the operation of food concessions at sports and similar facilities. The food is usually prepared in a central unit	Activities of food service contractors (e.g. for transportation companies) Operation of food concessions at sports and similar facilities Operation of canteens or cafeterias (e.g. for factories, offices, hospitals or schools) on a concession basis	Manufacture of perishable food items for resale (SIC 1089)

- Recall in-house catering in non-core hospitality industries is not directly estimated from SIC data but instead is estimated using occupational data on the employment share of hospitality-related occupation roles in non-hospitality sectors.

Event management

SIC 2007		Description	Includes	Excludes
8230	Activities of conference organisers	This includes the organisation of conferences and meetings, whether or not including the management and provision of the staff to operate the facilities in which these events take place.	Activities of exhibition and fair organisers Activities of conference organisers	

- Self-owned conference centre letting activities in SIC 68310 are not included in the SIC industry definition, largely as they are part of a wider 4-digit sub-sector (SIC 6831) which cannot be broken down into any further detail and will be dominated by other renting activities

Temporary hospitality employment

- Temporary / agency employment across the hospitality industry is estimated using non-SIC sources, such as the BHA Food and Service Management Survey, as well as SIC data on sectors SIC 7810 (activities of employment placement agencies) and SIC 7820 (temporary employment agency activities).
- Where sub-sector specific estimates are not available from secondary sources (which applies to all sub-sectors except catering), temporary employment in the UK hospitality economy through recruitment agencies is estimated as a share of employment in SIC 7810 (activities of employment placement agencies) and SIC 7820 (temporary employment agency activities), based on the sub-sector's non-agency employment share of total employment excluding sectors which utilise less frequently temporary agency workers, e.g. utilities, public administration.

SIC 2007		Description	Includes	Excludes
7810	Activities of employment placement agencies (other than motion picture, television and other theatrical casting) not elsewhere classified	This includes listing employment vacancies and referring or placing applicants for employment, where the individuals referred or placed are not employees of the employment agencies	Personnel search, selection referral and placement activities including executive placement and search activities Activities of on-line employment placement agencies	Activities of personal theatrical or artistic agents or agencies (SIC 7490)
7820	Temporary employment agency activities	This includes the activities of supplying workers to clients' businesses for limited periods of time to temporarily replace or supplement the workforce of the client, where the individuals provided are employees of the temporary help service unit. However, units classified here do not provide direct supervision of their employees at the clients' work sites		

Annex B: Technical notes

Employment data sources

The following sources have been used in estimating employee jobs and self-employment for the core hospitality industry:

- **Annual Business Inquiry (ABI):** This provides sectoral coverage of employee jobs and includes 4 digit sectors and jobs by GB region and local authority. The ABI employee job series is published under the SIC 2003 and SIC 2007 classifications, although whereas the SIC 2003 series is published for the years 1998 to 2008, the SIC 2007 series is only available for 2007 and 2008.
- **Census of Employment:** Northern Ireland employee data is available from the Census of Employment which is produced by the Department of Enterprise, Trade and Investment (DETI). The series is only available on SIC 2003 basis currently and is only published bi-annually (e.g. 2003, 2005, 2007). NI employee jobs data on a SIC 2007 basis is estimated by taking a ratio of SIC 2003 NI to GB jobs, applied to the GB SIC 2007 employee job figures.
- **Labour Force Survey (LFS):** Similar to the ABI, the LFS is a survey however the sample sizes used in this survey are significantly smaller than the ABI. We use the average of 3 years of data for self-employment.

ABI data collection procedures

- As explained above, the Annual Business Inquiry is a major data source for this study given that it provides employee jobs data by 4-digit SIC classification for all local authorities and regions in Great Britain (as well as financial information on GVA, turnover etc).
- In 2006 there were some changes made to the way in which the ABI survey analysis was conducted in order to improve the quality of the survey results. These changes will see the ABI gradually move across to become the Business Register and Employment Survey (BRES) with all of the changes fully implemented by December 2010 when the 2009 ABI data will be published.
- Prior to 2006, the ABI survey return forms were sent to a selection of businesses across Great Britain, known as reporting units (RUs), as identified by the Inter-Departmental Business Register. The survey return asks for information relating to location, industry SIC of the main activity and registered employment for each local unit (LU).
- After 2006, the ABI has gradually moved across to the BRES, a system whereby the data is based solely on the information provided by the local units thus improving the quality of the local level data.
- By way of example, consider a RU which is the head office of a major restaurant / café which may have a LU located within an airport. Prior to 2006, the published ABI data would have been built up using the information provided by the RU which might contain information stating that there is one local unit located at the airport (determined by the postcode provided) with 15 employees in hotels & restaurants. From 2006 onwards the survey returns were sent directly to local units and the published data has been built up based on the information provided by the local units.
- Note that the definition ABI / BRES asks for the number of employees on a business payroll and that the employee must have a contract with the business concerned thus eliminating the risk of double counting.

This is in keeping with our previous example of a restaurant / café at an airport - any employees here can only be reported by the restaurant / café owners and not the overall report since the contract of employment is only with the owners.

- With regards to how temporary employment is treated in the ABI, when an employment agency fills out the ABI form, the survey returns the number of people that are on agency's 'books' on the reference date. If the firm the temporary employees are working for are paying these employees, then there is a risk of double counting this employment with employment agency figures. However a stipulation of a worker qualifying as an employee is that they have a contract of employment, which temporary agency workers should not have. This is designed as such to avoid double counting but some risk of double-counting remains.

Self-employment

- The availability of quality self-employment data is scarce with the LFS and Census being the only sources of data. The Census data is now outdated with almost ten years having passed since the results were published in 2001 and the level of detail only being extended to cover 3-digit level (on an older SIC basis).
- As such, the LFS is the only remaining source of data and as already mentioned, accessing data at a lower level of geography or for more detailed SIC sectors in the LFS has sampling issues.

Mapping between SIC 2003 and SIC 2007

- For the purposes of this study, the hospitality sector has been defined on a SIC 2007 basis. However, since SIC 2007 has only recently been introduced, the availability of data on a SIC 2007 basis is restricted. Consequently, for constructing a long historic time-series, we have had to carry out a mapping exercise of hospitality sub-sectors between the SIC 2003 and SIC 2007 classifications.
- Broadly most of the sectors match up, although in some cases aggregation is required to match.
- Given the ABI survey is collected in September every year but employment published and forecasted in the Oxford Economics Regional Model are mid-year values, we have applied scaling factors to each sector which converts the ABI data to mid-year values.
- Note the SIC 2007 series is backcast based on this mapping exercise and existing Oxford Economics historic SIC 2003 series.

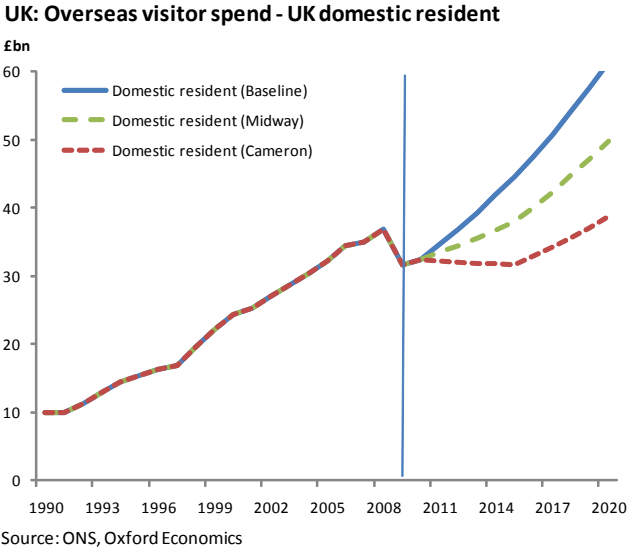
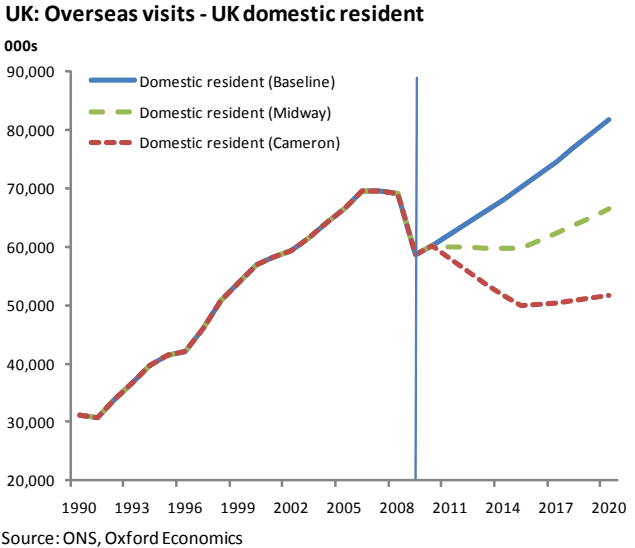
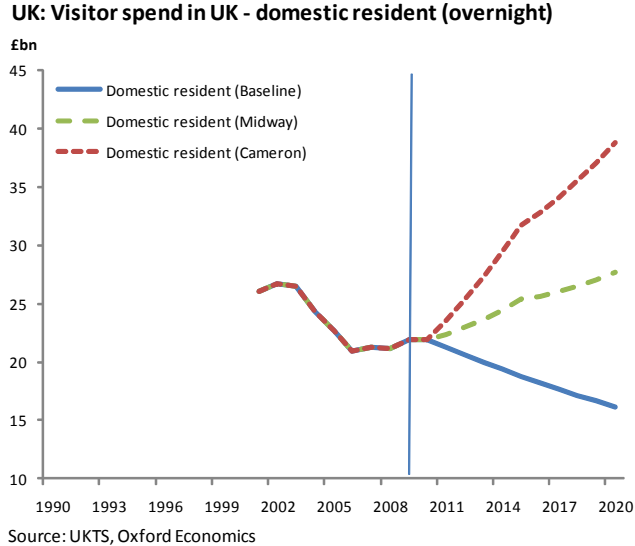
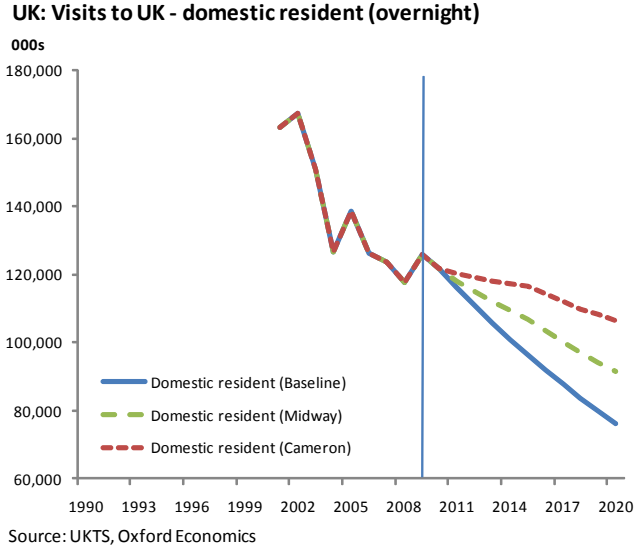
Caveats

The caveats which should be borne in mind, in relation to the construction of the employment series and for the hospitality industry, are as follows:

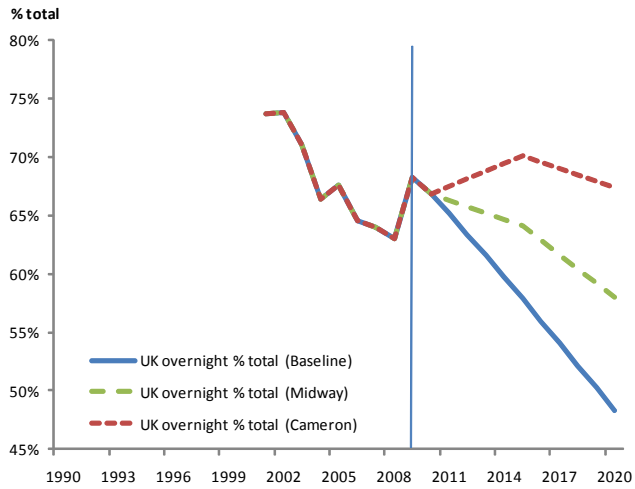
- **Timeliness of employment data:** The timeliness of employment data is an issue, with the latest ABI data only being available for 2008. More timely data is available from the ONS Workforce Jobs series with the latest data point being Q1 2010. However the level of detail in the ONS series does not extend to cover 4-digit sectors, but rather 2-digit sectors. Oxford Economics UK industry model uses the latest quarterly data, and the scaling applied to the data in this study ensures that the most recent trends in employment are implicitly applied to the 4-digit employee estimates.

- **Quality of employment data:** The quality of the ABI data is equally as important with the ABI being susceptible to misclassification errors, particularly as the level of detail in the ABI becomes more refined. Despite the efforts of the ABI team at the ONS, the onus is on the survey respondents to fill in the survey forms as accurately as possible to ensure a high level of quality in the published ABI data. Potential errors may arise from an incorrect postcode or a misclassification of sector by the survey respondents. Given this study uses 4 digit sectors, the likelihood of some sectoral misclassification is reasonably high. The potential for geographical misclassification, i.e. the problem of an incorrect postcode on the survey return form is less likely to occur at Great Britain level since the local authority level data is aggregated. However, when looking at local authority data, errors and data volatility are more likely to occur.
- **Small sample sizes in the LFS:** The LFS is used to estimate self-employment. The sample sizes used in the LFS are smaller than those in the ABI and as the level of detail becomes more refined (e.g. 4-digit etc), the quality of the data is reduced.
- **Limited data availability on SIC 2007 basis:** At present, the 2007 Standard Industrial Classification is still very much 'new' and many data sources have not fully moved across to the new classification. The Blue Book is not due to be published on a SIC 2007 basis until 2011, and the ONS Workforce Jobs series have only just moved across to SIC 2007 in July 2010. In addition, the latest published SIC 2007 employee jobs data is only available for two years, thus making it difficult to establish historical trends.

Annex C: Scenario visitor assumptions and impacts

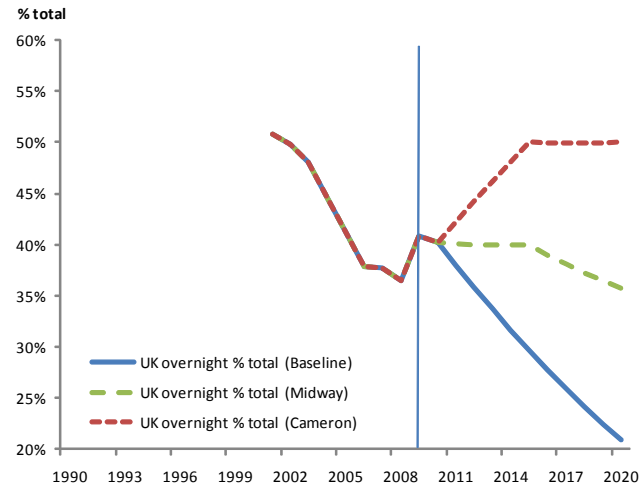


UK: Domestic resident visits - % total



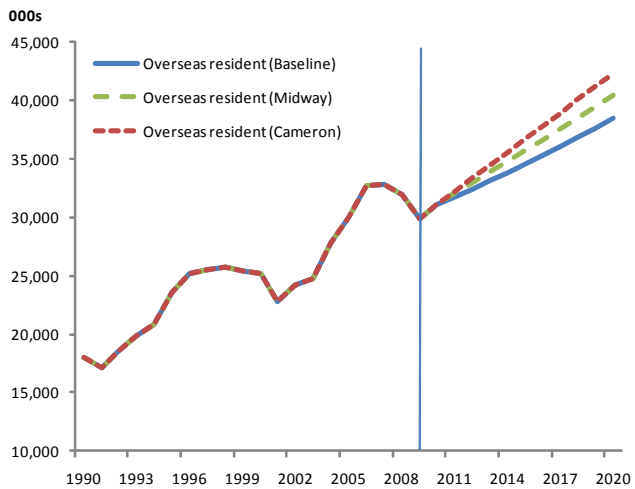
Source: UKTS, ONS, Oxford Economics

UK: Domestic resident visitor spend - % total



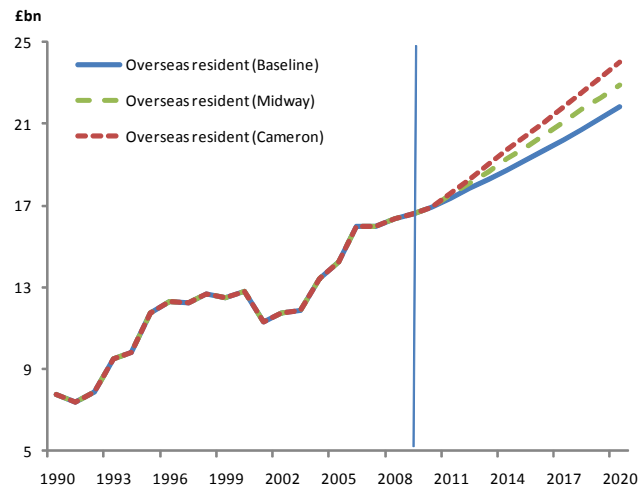
Source: UKTS, ONS, Oxford Economics

UK: Visits to UK - overseas residents



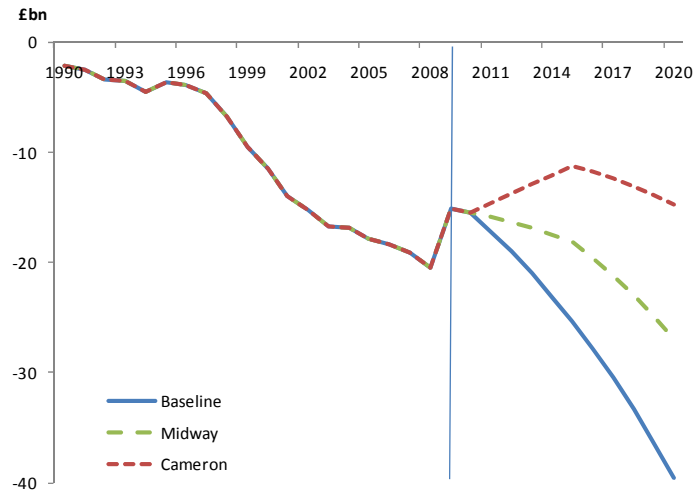
Source: ONS, Oxford Economics

UK: Visitor spend in UK - overseas residents



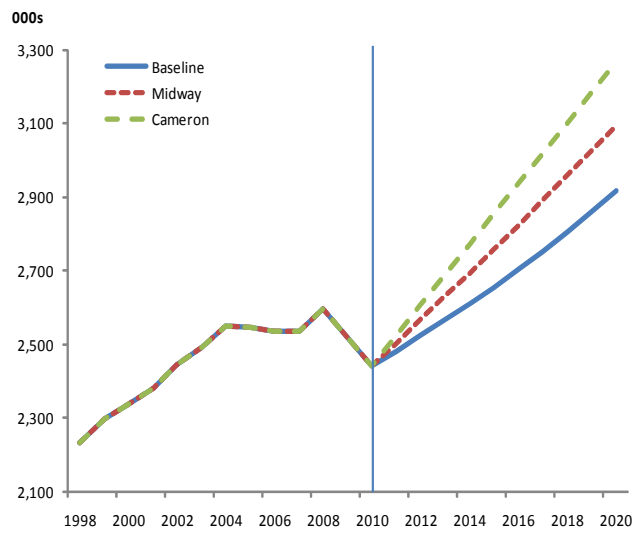
Source: ONS, Oxford Economics

UK: Visitor spend balance of payments



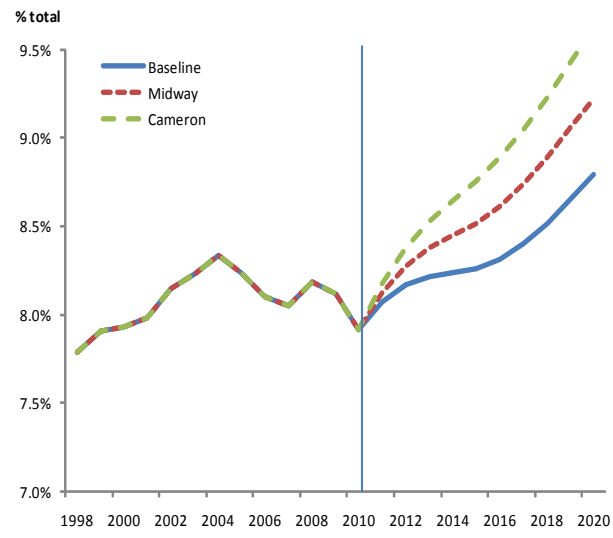
Source: ONS, Oxford Economics

UK: Direct hospitality employment



Source: ABI, LFS, Oxford Economics

UK: Direct hospitality employment share of total economy



Source: ABI, LFS, Oxford Economics

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