

## Written evidence submitted by UKHospitality

### UKHospitality

UKHospitality is the voice of a sector that generates £130bn revenue each year. Representing more than 700-member companies, operating 80,000 venues in a sector that in normal times employs 3.2 million people, UKHospitality spearheads hospitality's representation on the strategic, structural and regulatory issues it faces, campaigning for policies to help the sector achieve further growth as a key driver of the UK economy. Hospitality has been the hardest hit sector by the pandemic but is optimistic of the role it can play in returning the country to growth and boosting employment if the right conditions and support are in place.

Over the course of the pandemic, the damage to the hospitality sector has been immense. The latest figures show that across 2020 the sector saw sales drop by 53.8%, a loss in revenue of £72 billion. Our sector's decline is likely to have knocked over 2 percentage points off of total national GDP. It is over 10 times worse than the impact of the financial crisis for hospitality.

[Executive Summary - Immediate investment required by the hospitality sector](#)

This submission builds on previous submissions given by UKHospitality to the Treasury Committee and the recent budget submission that we made to Treasury.

It is important within this introduction to outline the continued investment that the sector needs at this time. As the committee will be well aware, the hospitality sector was hit first and hardest by COVID-19. At the time of writing, it is not an exaggeration to suggest that parts of the hospitality sector are on the verge of collapse. **41% of sector businesses suggested that they would fail by mid-2021.** Only **one in five sector** businesses have enough cash flow to survive beyond February under present levels of support. Despite this, we have the potential to rapidly contribute towards economic recovery, as we have done following previous shocks.

The sector will begin to recover when it is able to reopen, but it can bounce back so much more rapidly with the right support in place. The sector has two clear proposals to drive this growth:

- 1) Extend the VAT cut to 5% to at least the end of the year, and ensure it applies across the broad hospitality sector, to stimulate economic activity**
- 2) Enact a further business rates holiday for hospitality for 2021/22 to protect communities and repair businesses.**

The Government identified measures to kickstart the sector last July, most notably with a cut in VAT for hospitality and tourism to 5% - extending this until at least the end of the year will continue to stimulate the economy, assist businesses to repair their balance sheets and, crucially, will avoid substantial price increases in April – in time for the Easter weekend.

The business rates holiday for 2020/21 has been vital for business survival for hospitality since the start of the pandemic, avoiding a significant fixed cost. It is vital that this is continued for another year to allow businesses to recover. A further business rates holiday could also contribute towards the resolution of the rent debt mountain that has developed since forced closure last March and that threatens our recovery and the stability of the property market.

As well as these critical revival mechanisms it is crucial that the fundamentals are in place to ensure that businesses can take advantage of the opportunities that 2021 brings, principally through increased liquidity.

- a) Implement a reformed Job Retention Bonus to allow continued investment in our workforce.
- b) Extend the repayment and interest-free period for all Government-backed loans to 10 years.
- c) Defer tax payments further, to December 2021, to allow full trading before debts to Government fall due.
- d) Extend CJRS until the end of June, allowing flexible furlough.
- e) Assist the hospitality supply chain so it can support the sector's recovery.

This is a critical time for the hospitality sector. While the Government has rightly invested significant energy and resource in supporting the sector to this point, it is essential that the sector is assisted into the recovery period. When the different support schemes expire at the end of March there could be significant sector business failures unless Government ensures a stable transition.

[To what extent do Government measures protect viable jobs in the future and reduce the risk of long-term unemployment?](#)

The unprecedented steps that the Government has taken over the last year to support jobs in the hospitality sector have undoubtedly saved hundreds of thousands of jobs in our sector. The furlough scheme has been a lifeline for many businesses and jobs, that would not exist if the scheme were not in place. There is of course still a cost to business through National Insurance Contributions and pension payments – contributing to the depletion of any existing cash reserves.

Many otherwise viable jobs that the government has protected to this point are in an extremely perilous position. The recent ONS data highlighted the impact that COVID-19 was having on the sector, with foodservice and accommodation and food services having the highest rate of annual unemployment and people on furlough. When the sector can reopen, and the terms on which it can trade when it does, will have a crucial bearing on ongoing employment levels. It is unlikely there will be any significant reopening before April and even then, there is an expectation that restrictions will apply. Trading is therefore likely to be depressed into early summer and employment support must be in place to facilitate that. This is why we are calling for furlough to be extended until the end of June.

Given the expected length of the current closure period, we would urge Government to extend the eligibility period to allow those employed by the end of December to continue to be furloughed and to consider uprating reference pay periods for those on or around minimum wage.

As mentioned in the introduction, the government's reduction of the VAT rate has also supported the retention of jobs by businesses in the hospitality sector. A joint survey in December 2020 between UKHospitality, Cut Tourism VAT, the Tourism Alliance and the Association of Leading Visitor Attractions (ALVA) received over 1,100 business responses that set out business views on the impact of the initial VAT cut its future.

Asked how they used the VAT cut, there was a majority who used the benefits to meet additional costs, supported wages and paid suppliers. This gave clear benefits in terms of meeting the objective of job retention and supporting the wider supply chain. Around half of businesses used the VAT cut

to reduce costs. An extension of the VAT reduction beyond the current March deadline would be a significant boon for hospitality businesses and jobs.

To what extent are Government measures value for money for the taxpayer?

We strongly believe that Government measures to support hospitality should be viewed as an investment. The sector contributes so much to the country - in terms of economic activity, employment, skills and training, social interaction and cohesion. The sector is also a major tax contributor meaning that Government investment now will manifest itself in greater tax gains in the future. If businesses are left to fail, this will result in lost tax liabilities, from the past and in the future.

Supporting the hospitality sector benefits the entirety of the UK, given the pan-UK nature of sector businesses. One of hospitality's great strengths is that it is omnipresent across the UK – it is a truly national sector that has a presence in every village, town and city, in all nations, in all regions. Supporting the hospitality sector, therefore, spreads the share of gains to all areas, particularly coastal towns that are reliant on tourism. Successive governments have identified the challenge of transferring wealth from urban communities and the South East to areas across the UK. Hospitality and tourism are two of the few industries that can directly support this objective quickly.

The widespread nature of hospitality also contributes to local, civic pride across the country. It is well-established that people relate to their local town centres, high streets and community hubs. Where these become run down it reflects on citizens' views of the quality of their life. Pre-pandemic, the decline of retail contrasted sharply with the growth of hospitality, that was breathing life back into local areas. This investment will continue provided the conditions for growth are provided.

Hospitality can deliver rapid economic growth with the right conditions in place. This has been demonstrated before and is, even more, the case now. Following the 2008 Financial Crisis, after which the sector created 1 in 6 new jobs in the subsequent decade. There is latent demand that is waiting to be supplied, from friends and family, business, and social events such as weddings and the usual flow of hospitality. Of course, with a return to economic activity comes a return of tax revenue for Government to repair the public finances, with the sector contributing a third of its turnover in tax.

It is also essential to recognise the important role hospitality businesses will play in helping the country emerge from lockdown and the pandemic when the vaccine rollout is completed. The coronavirus health crisis has placed an enormous mental strain on individuals and relationships. It has left many isolated and alone, without their usual physical, social networks. A strong return for hospitality will help to repair these bonds between individuals and communities and reduce the feeling of loneliness that has marked the last twelve months.

There are areas where Government decisions have provided questionable value for money. For example, the ending of the VAT Retail Export Scheme will raise some additional funds for HM Treasury, yet will severely dampen demand for tourism in the medium-term, costing the hospitality and retail sector billions in sales.

The government should therefore view its support of the sector as an investment and one that will pay dividends. If fully supported through the period of closures and restrictions the sector can rebound quickly, driving growth, job creation and supporting local communities.

How effective is the Government support to businesses and individuals across different regions and sectors? Does the effectiveness of the Government support vary across different regions?

Government support has provided a lifeline for many hospitality businesses at this time. The sector and its businesses are extremely grateful for the support that they have received from the government during this period. As outlined in the executive summary, continued support for the sector, specifically a continuation of the VAT reduction and the businesses rates holiday is important to ensure that the sector is fully supported through the period of restrictions.

With regards to the effectiveness of support and its regionality, there have been some difficulties for businesses in accessing the grants that they are eligible for. These grants were designed for speedy payment to help businesses survive and make payments during their periods of enforced closure. Grant support has been varied in its payment. It is imperative that payments are made speedily and readily to businesses that need it. All local authorities must be encouraged to speed up the allocation process of the grants. However, overall, we believe that support has been consistent across regions.

There are legitimate concerns in hospitality that support has not reached all parts of the sector. The reduction in VAT, for example, did not apply to many business types, including wedding venues and ten-pin bowling alleys. Beyond furlough, the contract catering sector has received very little support as business rates and VAT relief are of limited benefit and their businesses have been hard hit as office and leisure are shut down or curtailed.

What impact will a second lockdown have on the economy? How should the Government best support the economy if intermittent lockdowns become a feature over the next year?

Intermittent lockdowns are extremely damaging for sector businesses, making it impossible for them to plan their reopening and the reactivation of supply chains. The worst-case scenario for a business when leaving lockdown would be a 'false start' where they purchase and step up their supply of goods only to be told that they cannot trade once again.

Hospitality businesses throughout COVID-19 have gone to great effort and expense to ensure that their venues are Covid secure. A recent UKH-Survation survey found that 72% are satisfied with COVID-safe measures in hospitality venues, recognising the major efforts businesses have gone to in order to make their venues COVID secure. Businesses have gone to great lengths to ensure there is consumer confidence in their venues. We are confident that when the sector can reopen it will be doing so in a safe way.

UKHospitality is currently working with both businesses and government to develop a reopening model that takes into account the challenges that the sector is facing and removing potentially harmful conditions, such as the 10pm curfew. As the vaccine rollout accelerates, it is the hope of the sector that when they reopen, they are not forced to close once again.

How large a problem is corporate indebtedness? How effectively did the financial sector give assistance to businesses?

Corporate indebtedness will be one of the most significant legacies of COVID-19 for the hospitality sector. Rent debt is a significant anvil around the neck of hospitality businesses and must be resolved. The rent debt moratorium was extended until the end of March 2021, which was welcome news for hospitality businesses, but this does not solve the underlying problem of rent debt. It is also

likely to end while vast swathes of the sector remain shut and have been unable to earn revenue for at least three months.

The moratorium has preserved the sector's survival to this point, but the recent announcement signalled that this would be the 'final' extension. If this is the case, then there is inevitably going to be a wave of evictions and legal action – resulting in mass site closures and job losses – as the funds are simply not there to pay the rent debt.

This is compounded by the fact that businesses have no indication of when or how they will reopen. It is virtually impossible to come to a settlement on rent debt repayment and future terms when you have no clear sense of what level you will be trading at, which is dependent on Government restrictions, inter alia.

It is within the interests of all impacted parties, including the government to come to an agreement or solution to this issue. UKHospitality will be requesting that BEIS and MHCLG extend the moratoria for an additional quarter to allow businesses time to reopen – most do not expect to be open when the moratoria end – and build up some cash reserves. We would welcome HM Treasury support in this objective which we feel is to the mutual benefit of Government and business.

In relation to the financial sector, there is a general feeling that it has been either absent or obstructive in rent negotiations. It is alleged that landlords have not been able to provide rent concessions to their tenants due to restrictive covenants that prohibit such support. Similarly, there are reports that loan provision has been contingent on funds not being used for rent debt payments. There is still an opportunity for the financial sector to make a meaningful intervention to support facilitate the recovery of the property market, but this needs to happen soon.

#### [What changes to the economy are now permanent?](#)

The long-term impacts that COVID-19 will have on the sector are not yet fully understood. Changes to the way in which people have been working during the pandemic will probably impact hospitality businesses moving forward, specifically those in city centres and dependent on office workers' footfall. It remains to be seen at what level people return to the workplace and when they will begin to return. It is positive from a sector perspective that there appears to be a strong latent demand for the hospitality sector which will spark its recovery when it is able to reopen.

Even during the pandemic, it has become clear that climate policy and climate politics are a key part of the Government's agenda, including the Ten Point Plan for a Green Recovery. Before the pandemic, hospitality was on the verge of embarking on a plan for decarbonisation. The sector recently launched its Zero Carbon Forum, with the ambition of reaching Net Zero carbon emissions ahead of Government timelines. The sector will be showcasing an array of initiatives at COP26, which will literally be hosted by hospitality businesses.

#### [What difference will the discovery of a vaccine and/or treatment make?](#)

The discovery of a vaccine means that there is a light at the end of the tunnel for industry, who can look to the future and begin to plan how they will reopen when the vaccine rollout is completed. The hospitality sector has put itself forward to assist with the vaccination programme, offering space and resource to the government in order to assist with this.

We have urged Government to take a risk-based approach to reopening, aligning opening with the reduced risk of harm delivered by the vaccination rollout. With protection delivered to the most vulnerable groups, which make up 88% of deaths to-date, by early March, we believe there is the

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opportunity to gradually reopen the sector. The current regulations expire on the 31<sup>st</sup> March and there is an opportunity for Government to put in place a more proportionate system from that point. It is clear that the current tier system is utterly unworkable for hospitality businesses, laden with measures that cause maximum economic impact, for minimal health gains (e.g. curfew, substantial meals).

If the data on health permits it the Government should strive to allow hospitality to reopen from 1<sup>st</sup> April to feel the benefits of the Easter Bank Holiday weekend, reassured by the Covid-secure measures that are in place. The vaccine rollout finally allows this to be a realistic prospect.

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