

UKHospitality Submission to Treasury Select Committee

UKHospitality is the voice of a sector that generates £130bn revenue each year. In normal times, representing more than 700-member companies, operating 65,000 venues in a sector that 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. These businesses represent 10% of UK employment and generates £39bn of tax for the Exchequer. Hospitality has faced myriad cost pressures in recent years which have severely impacted the sector and its potential to grow, yet it continues to play a central role on Britain’s high streets and in its communities.

Introduction

The Government has unveiled an unprecedented level of support for the economy, and particularly for the hospitality sector, which has been severely hit by the restrictions of movement advised and imposed on the population to delay and prevent the spread of coronavirus. UKHospitality is grateful for the support provided to the sector and the actions Government is taking to protect health. We stand ready to do more, however there is further support that we need as a sector.

The decision to close hospitality venues from March 20th largely ended the sector’s ability to trade. While many venues are using this opportunity to operate as takeaways or are offering their services up at greatly reduced rates to key and NHS workers, the majority of hospitality businesses are closed until further notice. However, even while open at the beginning of March, footfall within businesses had been sharply decreasing. This is demonstrated in figure 1.1, which highlights the loss of business that occurred throughout March due to coronavirus.

Figure 1.1 – Declining Footfall percentage in Hospitality Businesses, March 2020

	6 th March	7 th March	13 th March	14 th March	20 th March	21 st March
Edinburgh	-32	-29	-24	-20	-77	-94
Newcastle	-27	-39	-26	-31	-72	-95
Liverpool	-10	-20	-8	-37	-80	-96
Birmingham	-27	-13	-28	-36	-80	-95
Cardiff	-22	-18	-15	-59	-83	-97
Bristol	-9	-24	-16	-26	-76	-93
London	-17	-16	-27	-39	-81	-94

The inability to trade is clearly a significant challenge for the sector, and there is very little indication as to how long trade in the sector will be impacted. The hospitality sector, much like the retail sector, is largely cash based. Without business or trade, businesses are increasingly having to look to their cash reserves to pay their overhead costs. With restaurants for example, there is generally around 16 days of buffer cash, with consumer spending playing an essential role in covering business costs. With very little indication of how long it will be necessary for the enforcement of the Government’s closure of businesses, there is understandably a great deal of anxiety from businesses within the sector about what the future will hold.

The measures that the Government has announced are unprecedented, extremely generous and have undoubtedly saved thousands of careers in the hospitality sector. However, for some businesses, this support will become available too late. As will be outlined below, while waiting for the Government's employment support to become available, it is essential that hospitality businesses have access to the bank loans and grants that the Government suggested that they would.

The reality is that, even with Government support, the landscape of the hospitality sector when it emerges from this crisis will look very different. Without access to immediate cashflow, it is inevitable that even with the measures that the Government has announced, there will be many businesses including recognisable high street brands that will no longer be able to open their doors.

This submission will review the measures that the Government has introduced to support hospitality businesses, while also outlining what the support the hospitality sector will need when business does return to normal.

Employment Support

The shutting down of hospitality businesses has clearly impacted the sectors workforce, with significant numbers of people now furloughed or laid off as businesses temporarily close.

The Government has announced a wide range of support for employees within the hospitality sector. The decision to introduce a Coronavirus Job Retention Scheme will support many of those who were at risk from the outbreak. Grants will be provided to cover 80% of the wages of those who are on the payroll but who are temporarily out of work due to coronavirus. This applied to all businesses. The Government's proposal amounted to up to £2,500 per employee per month, which is the equivalent of 80% of a £37,500 salary. If a company is unable to survive and has to call in the administrator, the administrator will have access to the scheme. The vast majority of jobs within the hospitality sector were covered within this scheme, and it has been widely welcomed by businesses across the UK. UKHospitality has been working closely with members, helping them communicate with their staff the levels of support that are available.

There remain a number of uncertainties within the scheme that are hampering business decision - making. For our sector service charge and tip payments make up a significant portion of earnings. At present there is not clear guidance as to whether that should be paid. There are also thousands of staff in the sector who started work, or were due to start work, after the 28th February cut-off date. Business and employees are left in a position where these staff will receive no funds and we believe there should be some flexibility here. One final key area is the ability of staff to do ancillary work for the business. Businesses expect to need a senior member of staff to visit site for 1-2 hours per week to carry out essential health and safety checks. We believe that there should be a de minimis number of hours that can be voluntarily donated while under furlough.

In addition it is critical that loans, that the Government promised, are made available prior to Government support coming in mid- to late-April. This is imperative in the short term, or we will see increasing insolvencies in the sector in the next few weeks, before employment grants become available

Business rates, grants and commercial rents

The hospitality sector has long been disadvantaged by the existing system of business rates. In relation to the turnover of the sector, the hospitality sector pays 11% of all business rates, yet makes up 2.5% of related business activity. If rates were equivalent to business activity, then the sector's business

rates bill would be just £713 million. Or in other terms, hospitality businesses are overpaying on business rates by £2.4 billion.

The decision that the Government made to offer a business rates holiday for 12 months was therefore a significant boost for sector businesses. This welcome relief will have a significant impact on businesses within the hospitality sector and we hope it is a longer-term recognition that business rates must be reformed

The Government has also provided grant funding of £25,000 for retail, hospitality and leisure businesses with property with a rateable value between £15,000 and £51,000. While this will be well received by a number of independent operators across the UK, it is important to note that many SMEs are missing out on business support grants because they operate from properties with a rateable value of more than £51k.

Outside of rates and wages, rent (including service charge) remains the most significant cost. Government legislated to prevent evictions for three months to provide protection during this period and this provided some cover for occupiers but more needs to be done.

The current provision essentially means prohibition of changing the locks and taking back possession of the property – which landlords are unlikely to do as it exposes them to a rates liability and a vacant, unlettable property. Following discussions that we have had with members, there is evidence that some landlords are using other mechanisms to penalise occupiers, which acts fundamentally against the spirit with which this legislation was introduced. Examples of this are:

- Commercial Rent Arrears Recovery (CRAR) proceedings – essentially sending in the bailiffs
- Winding-up petitions
- Statutory demands – ultimately putting the tenant into administration
- Drawing down of rent deposits and requiring deposit top up by reference to the deed and not lease – with failure to top-up breaching the lease
- Privity of contract or AGA reliance where landlords seek to chase previous occupiers for payment

UKHospitality proposes that the moratorium on rent is extended to capture all sanctions or remedies that relate to non-payment of rent (and service charge) for at least a three-month period, whether at a property or company level. Furthermore, it is crucial for a future recovery that interest is not accrued on deferred rent payments. Landlords should be afforded a moratorium on sanctions from their investors for an equivalent period and Government should ensure that liquidity is made available to the landlord community.

Loans

One of the key measures that the Government unveiled as part of its business support scheme was the business interruption loans that would be made available for businesses in the hospitality sector. The Coronavirus Business Interruption Loan Scheme was designed to offer loans of up to £5million for SMEs through the British Business Bank, as well as creating a new lending facility from the Bank of England to help support liquidity among larger firms.

While the Government is clearly well intentioned with the measures that it has proposed, the reality is that the current conditions do not take into account the reality confronting many hospitality businesses. As mentioned above, the key for businesses is access to finance quickly, in order to meet

the large fixed term costs that they face (leases, insurance) and of course the payment costs that they will have until Government assistance becomes available.

From what we have heard from our regular contact with membership, banks are willing to lend to hospitality businesses, however increasingly we have been told that there are commercial loans. These are not the low interest loans many businesses were told to expect, and they are also significantly slower, taking 3-4 months. These loans are also to be secured by business assets, which means that they will require a full business forecast for the next 12 months and for the next 5 years. At a time of crisis this is extremely difficult, requiring time and resources when they may not be available. The Government has said that banks are able to accept personal guarantees, however, it is unlikely that many Directors will put their personal finances on the line.

Future Support for the Hospitality Sector

- Abolish the upper threshold for hospitality sector grants to provide instantaneous funding to hospitality businesses to assist their survival
- Review the loan schemes to ensure that all businesses have a loan scheme to access – and that banks do not attach unfair conditions
- Extend the commercial tenant forfeiture moratorium to cover all sanctions by landlords and other suppliers for six months
- Ensure flexibility in the Coronavirus Job Retention Scheme to enable employees to receive service charge and tip payments, to carry out ancillary yet necessary tasks and to allow new starters to join the scheme