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THE BRITISH HOSPITALITY ASSOCIATION SUBMISSION TO THE MIGRATION ADVISORY COMMITTEE

Executive Summary

- The hospitality sector makes a powerful contribution to the UK economy. It is the UK's 4th largest employer with 3.2 million jobs. It contributes £73 billion in direct GVA. The sector has recorded the highest level of labour productivity growth of any sector since the downturn. Industries with a structurally lower GVA per hour worked should not be viewed negatively: labour-intensive industries play a key role in job creation, preventing social harm associated with high levels of unemployment.
- Hospitality is the biggest sub-sector in the UK's Tourism sector. Tourism matters to the UK economy – in an intensely competitive environment Britain is the eighth largest international tourism destination ranked by visitor numbers and the fifth largest by visitor expenditure. The industry's recent submission for a Sector Deal – as part of the Government's Industrial Strategy – emphasised the central importance of workforce supply for the sector.
- A KPMG report for the BHA concluded that, in a scenario of free movement ending and no new immigration into the sector being allowed, the industry would need to recruit an additional 62,000 UK workers each year to maintain current activities and to grow. At a time of low unemployment and a record high level in the employment rate, this is seen as deeply implausible.
- A career in hospitality is viewed differently in many continental European countries compared to the UK and this 'cultural bias' is reflected in a deeply held antipathy towards the sector from too many parents, Careers Advisers and teachers. Substantial reform in vocational educational is needed to ensure that the next generation of people entering the labour market view the hospitality sector in a more positive light.
- The sector's resourcing challenge is made more difficult by the geographic mismatch between where many of the target populations - of school students, the

unemployed and returners to the labour market – live and where many of the job opportunities will arise. About a third of all hospitality jobs are in London and the South East; about a third are in the North West, North East, Yorkshire and Humberside, West Midlands and East Midlands combined.

- The BHA will be leading a 10 Year Campaign by employers to recruit more UK workers and we will be building upon the successful partnership we have developed with the nationwide network of Job-Centres. A national Board will be established with an industry leader at the helm. The Campaign will recruit its own staff and have an independent financial structure.
- There is little evidence to suggest that reductions in immigration will have much effect on wage rates. What research there was on the subject was published before the introduction of the National Living Wage. Rather than see increases in wages, acute labour shortages are more likely to result in stalled growth, a decline in investment and lower levels of employment.
- The post-Brexit immigration system must enable the hospitality sector to recruit the EU workforce it needs to meet current requirements and to grow. Whilst a numerical cap on numbers through sectoral work permits is acknowledged to be necessary, the process for obtaining permits should be speedy and inexpensive. Work permits should be for 5 years and it should be possible to extend them by ‘drawing upon’ future allowances.
- Consideration should be given to an expansion of the Youth Mobility Scheme and to increasing the chances of international students being able to work. The Shortage Occupation List should include specialist chef positions and provide for languages specialists.
- In welcoming the Home Secretary’s decision to commission this research we want to see the Migration Advisory Committee operate in the same way as the Low Pay Commission by continuing to engage with businesses and other stakeholders. Recommendations for the number of work permits should reflect the needs of business but be subject to Parliamentary approval.

Introduction

The British Hospitality Association is the private sector forum for the UK’s sixth largest contributor to export earnings and fourth largest employer. We are the leading authority on hospitality and tourism in the United Kingdom and directly serve our 46,500 member businesses, including hotels, serviced apartments, the private rented sector, the sharing economy, restaurants, private members’ clubs, food service management companies, stadia, attractions and leisure outlets.

1. The Economic Contribution of the UK Hospitality Industry

In June 2017 the BHA published a report by Ignite Economics entitled *The Economic Contribution of the UK Hospitality Industry*. Appended to this submission and drawn from

official Government statistics, the report showed that the industry is the UK's 4th largest employer with 3.2 million jobs through direct employment and a further 1.44 million indirectly. Based upon growth of recent years, the report showed that the industry *could* create a further 518,000 directly employed jobs by the end of 2021.

(The ONS's 'Standard Industrial Classification' captures a narrower segment of the hospitality industry which was widened by the report's authors to encompass the whole sector. This is fully referenced on page 6 of the Report – essentially the wider interpretation covers all in house catering and includes temporary or agency workers.)

This means that hospitality is responsible for 9% of all UK employment and this is reflected in a range of regional totals from 7% (East Midlands) to 11% (South West and Scotland). In terms of job creation, the wider hospitality industry has accounted for about 15% of the overall UK employment growth since 2009, placing it 3rd out of 14 industries in the total number of jobs created. In terms of employment growth rates, it has outperformed both the economy overall and the faster growing services sector.

The 'restaurant and related' sub-sector accounts for over half of the employment of the hospitality industry, and has returned the highest levels of economic growth. Event management has grown the fastest over the past three years in terms of percentage growth, but the restaurant sub-sector has accounted for 65% of the job growth between 2013 -16. Detailed employment growth figures are set out in Figure 20 on page 11 of the Report.

Gross Value Added (GVA) is calculated at £73 billion directly with a further £37 billion indirectly. The most bullish growth forecasts show that direct GVA could be £22 billion higher at the end of 2021. Whereas the sector accounts for 9% of all jobs in the UK, the GVA share of the total UK economy is 4.3%. This is clearly explained by the labour-intensive nature of the industry. But in terms of GVA growth since the economic downturn, it is the fastest growing industry in the UK with a GVA CAGR of 5.9%: almost double that of the economy as a whole.

The hospitality industry has one of the lowest levels of labour productivity in the economy. However, since the economic downturn, it has returned the *highest* level of labour productivity growth of any industry – more than double the growth rate of the overall UK economy. The hospitality industry has also shown a significantly improved use of capital – at a time when the capital efficiency of the overall UK economy has deteriorated.

Improvements in labour productivity are key for economic progression and wealth creation. That does not mean that industries with a structurally lower GVA per hour worked should be viewed negatively however. Labour-intensive industries provide a key role in employment, preventing significant social harm associated with high levels of unemployment. The BHA published a separate paper again by Ignite Economics on this issue – *UK Hospitality Industry Productivity Report* – and this is also appended to this submission.

2. The Government's Industrial Strategy and the Sector Deal for Tourism

On pp 6-7 of the *Economic Contribution Report*, the distinction between Hospitality and Tourism is explained.

Tourism is defined by the UNWTO as:

‘...the activities of persons defined as visitors. A visitor is someone who is making a visit to a main destination outside his/her usual environment for less than a year for any purpose [including] holidays, leisure and recreation, business, health, education or other purposes...This scope is much wider than the traditional perception of tourists, which included only those travelling for leisure.’

Tourism is rightly seen as a key sector for the UK economy and, by some margin, Hospitality is its biggest sub-sector. Tourism matters to the UK – we are the eighth largest international tourism destination ranked by visitor numbers (the first seven are, in order, France, USA, Spain, China, Italy, Turkey and Germany) and the fifth largest international tourism destination ranked by visitor expenditure. The Government’s Industrial Strategy provides the industry with the opportunity of securing a package of reforms allowing the industry to reach its full potential. Tourism is a sector that cuts across Government departments – taxation, immigration & visas, transport, culture, local government and planning and the devolved administrations – and needs effective policy co-ordination.

The Industrial Strategy gave industry the opportunity to transform and upgrade their sector through ‘Sector Deals’ and the BHA has contributed to the industry’s blueprint for a more productive and competitive sector. The proposals – which are outside the scope of the MAC’s enquiry – have now been sent to the Business Department. But maintaining an adequate workforce supply is of central importance to the strategy for Tourism and a Skills Strategy to 2030 is one of four key chapters in the strategy.

Although Freedom of Movement will end when we leave the EU and any Transitional Phase is over, it is essential that the new immigration system recognises the need for industries like ours to have a continuing access to the workforce it needs. The new immigration system also needs to acknowledge that the UK labour force faces a structural decline in the years to 2030. This is fully set out in the report by the consulting firm, Mercer, in their March 2017 report *The Emerging UK Workforce Crisis*.

Hospitality and Tourism conjure up images of leisure: holidays, eating out, going to the pub. But it has much wider economic and social values and benefits than just leisure. Our ambitions to be an international economic force are dependent upon our Hospitality infrastructure – hotels, restaurants, convention facilities. And our offices, schools, colleges and universities, factories, hospitals, care homes and prisons are dependent upon a fully resourced food management service. The industry’s workforce makes a very important contribution to the economy and the country generally.

3. The KPMG Report into EU Migration in the UK Hospitality Industry

In March 2017 the BHA published a report it had commissioned from KPMG on EU Migration in the Hospitality industry. Some months earlier we had outlined to the Government our essential approach to the challenges we would face with the end of Free Movement. We argued for a new Immigration system providing for a graduated reduction in EU migration allowing sufficient time for the industry to recruit a greater proportion of UK workers (‘the 10 Year Plan’). But we wanted a clear quantification of the issue. The KPMG Report – *Labour Migration in the Hospitality Sector* - is appended to this submission; it was also sent to the MAC Secretariat when it was published.

KPMG looked at the official data (largely the ONS's Labour Force Survey) and also conducted a survey amongst BHA member companies. In all, 136 member companies participated in the survey; between them they employ about 275,000 employees or nearly 9% of the UK's hospitality workforce. At the heart of analysing the industry's reliance on an EU workforce is to understand employee turnover or churn.

Gross turnover (the proportion of people who leave their job in Hospitality during the year) has been estimated at 30%. Net turnover (the proportion of people who leave their job in Hospitality and leave the sector entirely) is not analysed by individual businesses and there is no hard data. Similarly, there is no hard data for differential turnover (i.e. the number of EU nationals who leave the sector entirely and join it). Part of the reason for the absence of data is the fact that the hospitality sector is comprised of over 240,000 businesses – the great majority are SMEs and micro-businesses.

The KPMG report outlines the assumptions they used in looking at a scenario where freedom of movement ends and there is *no* new immigration into the hospitality sector. (There is a widespread acknowledgement that the overwhelming majority of EU nationals would not be able to work in the UK under the existing Immigration rules for non-EU nationals. Oxford University's Migration Observatory have estimated this to be 96%.)

In this scenario, hospitality businesses need to recruit to fill vacancies in present establishment levels caused by churn *and* because of organic growth in the sector. With no additional EU workers to recruit from, Hospitality businesses would be forced to recruit *an additional* 62,000 UK workers each year to maintain current activities and to grow. We would like to emphasise that KPMG viewed this 62,000 figure as the *mid-point* of a possible range of 42,000 – 81,000. At a time of low unemployment and a record high level in the employment rate (the proportion of workers aged 16-64 who are working), this is seen as deeply implausible. Automation is not considered a viable solution given the realities of service delivery in the industry. But higher levels of employee retention *are* capable of being influenced by businesses and in the Skills Paper for the Industrial Strategy full attention was given to this.

Aside from an interesting regional perspective (Greater London having a very high reliance on EU workers), the report also highlights specific occupations such as Housekeeping in London's hotels where the reliance on EU nationals is extremely high.

The Report analyses the robustness of the Labour Force Survey and International Passenger Survey as data sources and provides a detailed critique of the LFS in particular.

In the absence of any other recent robust data or analysis for our industry, we will maintain that the mid-point of the KPMG analysis is fair and reasonable and the starting-point for numerical limits in a new Immigration system. (Of course this was based on 2016 data and the number of EU nationals in the UK has declined because of increases in emigration of the EU8 in particular and falls in EU immigration. This is reflected, anecdotally, in an upturn in member companies' comments about the difficulty of recruitment.)

4. What are the reasons for the industry's reliance on large numbers of EU nationals?

- (i) A career in hospitality is viewed differently in many continental European countries compared to the UK. Together with inadequate investment in UK**

vocational education, this means the UK's hospitality sector has become heavily reliant on EU migrant labour

In many continental European countries – France, Italy, Austria, Germany and Switzerland being the leading examples – the hospitality industry is seen *as a profession* and a career of choice. This has nothing to do with the rates of pay, hours of work or the actual job responsibilities of employees (room attendants still have to clean rooms and kitchen staff still have to clean kitchen equipment for example) but everything to do with a consensus in these societies that hospitality is a great career for young people to enter. ‘Service’ is just viewed differently – it’s not seen as ‘servility’ but, rather, an opportunity to work with colleagues in delivering great experiences for the customer. This is reflected in the decades-old high quality apprenticeship schemes in Germany or the well - established Hotel Schools of Austria, France and Switzerland.

Across all of these countries – subject to the same EU Directive on Free Movement (although many, of course, imposed transitional controls on the EU8) – there is substantially less reliance on an ‘EU workforce’. We are often challenged as to why in Paris customers are served by French nationals or in Rome by Italian nationals but in London by East European nationals. A big part of the reason lies in these differences in ‘cultural norms’. There is obviously an exchange of managers, graduates and kitchen professionals between the other EU Member States but not on the same scale of the migration movement to the UK in recent years. Britain has become a much more diverse society and a place where EU migrants have thrived. Their diversity and language skills have greatly enhanced the industry’s ability to service both a domestic and international customer base.

Unfortunately, there appears to be a quite deeply held antipathy amongst too many teachers, Careers Advisers and parents to young people entering the Hospitality industry. With Free Movement ending and some support for a restrictive post-Brexit Immigration system, this is a major challenge to the Hospitality industry in the UK. The fact that the hospitality sector provides the opportunity for people to progress from ‘the shop-floor to the Boardroom’ is one of its great attractions – in marked contrast to other sectors which continue to rely on exclusively graduate entry.

We absolutely reject the notion that British people are, intrinsically, less capable than their continental European counterparts of providing great customer service (surely we haven’t forgotten the Olympics and Paralympics of 2012?) We have more than two million UK born workers in our industry today doing just that. For the recruitment of the next generation of British workers (today’s school and college students) we need a substantially different approach by the Government to the issue of vocational education.

To a very considerable degree, public policy discussion on education (in England especially) is dominated by Higher Education and the reform of A levels and GCSEs. It’s an unfortunate fact that many school students are turned off by academic GCSEs and leave school with few or any qualifications. The welcome focus by the (English) Minister for Skills on post 16 skills misses the fact that, by then, hundreds of thousands of school students are completely detached from learning. Whilst we recognise, of course, that the MAC’s remit does not extend to Education policy, it does have implications for Migration policy because the lack of skill and ‘work preparedness’ in many school students has made the recruitment of an EU national an attractive alternative.

As we set out in Section 5 below, engagement with secondary schools and FE Colleges is going to be a major feature of the industry campaign to recruit and develop more UK workers. The hospitality industry is investing heavily on apprenticeships but, in common with other sectors such as food manufacturing, the fact that employment in the sector is so widely spread out across the country means that creating a critical mass for training providers in apprenticeships has sometimes proved difficult. We need the Government's help in four important areas of policy:

- For pre - 16 students, we need a much greater level of recognition by politicians, teachers, schools and academies that many students are never going to be interested in pursuing academic courses and that a significantly greater part of the school week should be devoted to work experience, communication and community activity;
- For post – 16 students, the Hospitality and Catering stream of the new T levels must be brought forward into the first wave and introduced from 2019. It is simply absurd for the Government to on the one hand want to cut immigration from the EU and then postpone, until after our exit from the EU, a critically important reform which could increase the supply of British workers into the sector;
- Amend the rules surrounding the Apprenticeship Levy so that businesses are free to use their Digital Accounts on a much wider range of training provision; and
- Encourage Universities to convert existing Hospitality and Event Management 3 year residential degree courses into degree apprenticeships so that graduates obtain a significantly better balance of work and academic experience and do not start in the industry with a heavy burden of personal indebtedness.

Whether or not such a package of reforms (together with the industry's efforts) is sufficient to really change some entrenched attitudes remains to be seen. But we do face a dilemma: either British or EU workers need to do these front-line jobs and if British workers don't do them and EU workers aren't allowed to, then the industry will stagnate and the British economy – and, arguably the way we live – will have been weakened. As we argue in Section 6 below it's not about pay; but it is about personal progression which we turn to in Section 5.

- (ii) **There is a fundamental mismatch between where the vacancies are and where many of the jobless, potential returners to the labour market and 'next generation school students' live...and determined efforts to recruit disadvantaged groups like the disabled and ex-offenders are unlikely to be sufficient for all the industry's needs**

In Section 5 below we acknowledge that, for the most part, our target new recruits – school and college students, potential returners to the labour market and the unemployed – are geographically immobile at the point of joining the industry for the first time. This does make our recruitment challenge harder.

Whilst the hospitality industry's share of total employment in a region is in a fairly narrow band of 7 – 11% (as outlined in the *Economic Contribution Report*), the actual numbers employed in each region are very different. London and the South East together account for 31% of total hospitality employment. This is broadly comparable to the 34% made up by adding together the totals for the North East, North West, Yorkshire and Humberside, West Midlands and East Midlands. The effect of this is to place a particular pressure on London

and the South East – especially as it has the highest proportion of EU workers in the industry.

Perhaps the commonest reason for businesses *not* recruiting UK workers is that so few apply for advertised positions or register on businesses' career sites. Many businesses work quite intensively with the network of local Job Centres and there has been a marked increase in the number of Hospitality Accounts with JCP. But there is no getting around the fact that the number of available people is insufficient for our recruitment needs. KPMG looked at these issues in detail and we refer you to pp 34-41 of the enclosed Report for a more detailed analysis.

The joint NIESR/CIPD report *Facing the Future: Tackling post-Brexit Labour & Skills Shortages* (June 2017) selected hospitality as one of three sectors facing particular challenges in recruitment after the end of free movement. The unwillingness of some UK job seekers to work 'unsocial hours' (an operational reality in service industries like ours) was clearly outlined. Whilst many older workers make a great contribution to our industry, not every role is desired by them and parents looking with children and or dependent older relatives find the hours needed by businesses like ours very difficult to align with their family's needs. Many hospitality businesses have been working with specialist campaign groups for disabled workers and ex-offenders with some success. The numbers of new recruits from these sources continue to be modest however.

5. What is the Hospitality Industry going to do to recruit more UK workers?

In its discussions with government officials the BHA has explained the thinking behind its 10 Year Campaign. Immigration reform needs to be introduced gradually to enable the industry to have the time to recruit more UK workers.

The two key partners for the Campaign will be the Springboard organisation and the network of Job Centres. A national Board will be established with an industry leader at the helm. The Campaign will recruit its own staff and have an independent financial structure. Whilst funds will be sought from businesses, our initial attention will be on the grant - awarding charitable sector. There will be no direct appeal to the Government for funds but should the Government, for example, run a specific campaign on the recruitment of disabled people or ex-offenders, it may be that public funds are dedicated to the Campaign for such a purpose.

Other members of the Board will be leaders of leading Hospitality businesses – including one from each of the home nations - and a representative from the Careers and Enterprise Company and the Institute for Apprentices. Whenever other organisations are needed to be involved they will be – for example the Prince's Trust.

A key task for the national Board will be to set a strategic direction and set of priorities for the campaign. Making broad allocations of management time and financial resources will be very important. In addition to the UK Board, there will need to be appropriate national Boards for the home nations. A meeting with the three Welsh Ministers whose portfolios cover these issues has been arranged for January 2018 and it's vital that the campaign has the closest possible relationship with the administrations in Edinburgh, Cardiff and Belfast.

At the heart of our approach is to see Hospitality and Tourism presented in a fresh and contemporary way. There will be much less reliance on paper and brochures and much more of Social Media and YouTube. The BHA's recruitment partner is an organisation called 'Flexy' who have spearheaded the use of Social Media in the recruitment market and they will be fully involved on the National Board. Two of the most successful *Big Hospitality Conversation* events in the last two years have been those held at the Liverpool and Tottenham FC stadiums. Partnering with Premier League or Championship football clubs and Premiership Rugby clubs portrays Tourism and Hospitality in a much more dynamic light.

The principal populations we are seeking to connect with are the unemployed, school and college students and potential returners to the labour market. To a very considerable degree they have one thing in common: they are, for the most part, geographically immobile. We will, therefore, settle on up to 40 local campaign centres throughout the UK. London could have as many as eight; Wales is likely to have four or five; Leicestershire would be based on the city of Leicester. In each centre, we are looking to build a local campaign group drawn from the following people and organisations:

Premier League football club/Premiership Rugby Union club/County Cricket ground	Member of Parliament; MSP/AM; Mayor; local councillors; LEP representative; representatives from DMO	Secondary school(s); FE College; University where applicable
JCP staff and any relevant charitable campaign staff that may be based in the area	Local newspaper; local radio	Hospitality & Tourism businesses in the area
Managers and field workers from the Springboard organisation	A National Campaign Manager (each responsible for 10-15 areas)	Significant arts/cultural institutions in the area – galleries/museums

Each local centre of campaign activity will draw up its own plan of action based upon its own needs and priorities. Whilst some material and content will be designed centrally, it's important that each area is able to put its own personality and priorities on the content. It would be senseless for a central group in London to design the content for use in Cornwall or North Wales – people on the ground are much better placed. Nevertheless, the national Board will need to ensure that robust business plans are in place for each local area. The existence of such groups will be able to act promptly in changes in the local workforce – for example a proposal to close a regional distribution centre can be acted upon straight away with a Tourism and Hospitality Careers event organised for those potentially losing their jobs.

The active involvement of the Springboard organisation will be of central importance to the Campaign's success. Established nearly 30 years ago it specialises in the Hospitality sector and has substantial experience in promoting the industry as a great place to work. It operates throughout the UK and has a staff of nearly 50 people. A number of Springboard's existing campaigns and programmes will be able to be used. Springboard presently have more than 1,000 Ambassadors for schools and college campaigning and these can and will easily be integrated with the work undertaken by the Careers and Enterprise Company.

The purpose of all this campaigning is to raise the profile of the sector and showcase it in the most dynamic way. But the national Campaign is not a recruitment agency and the accountability for securing the right workforce for a business will always rest with individual businesses. We want (and need) to bring new people into our industry but each centre will have to manage its way through a situation in which some businesses find it easier to attract and retain people than some others.

This approach was included in the industry's Sector Deal for Tourism which we mentioned in Section 2 above.

6. What would be the consequences of a sharp reduction in the supply of EU nationals on wage levels for the UK Hospitality industry?

We are pleased that the MAC will look at the effect of immigration on wage levels. We want to question the assertion that large scale immigration has depressed (and, in light of the establishment of the National Living Wage *would continue to depress*) wages – especially at the lower end of the income distribution. In a recent article by Oliver Kamm in the *Times* on 11th September 2017, he responded to a Government Minister's assertion that there was 'quite a lot of evidence' of excess migrants depressing wages for low-skilled manual work. He wrote that:

'The evidence that immigration depresses wage levels in the economy is weak, even at the lower end of the income distribution....'

Empirical evidence suggests that the effects of immigration on average wages in the whole economy are very small. And these studies don't agree whether that effect is positive or negative. A Bank of England study in 2015 found a small negative effect that was greater for semi-skilled and unskilled workers in the services sector (such as care homes, restaurants or cleaning services), where a ten percentage point rise in immigration reduced wages by the equivalent of 2 per cent. As far as I am aware that's the evidence [the Government Minister] is referring to. It's one study showing only a small effect.'

These comments support those made by the former Chairman of the MAC, Sir David Metcalfe. In an interview with *The Guardian* published on 29th July 2017, he stated that:

'[During] my previous work on the Migration Advisory Committee, it did seem the influx from [East European countries in 2004] did dampen down wages at the lower end of the pay distribution, but not by very much.....And, therefore, by implication, if we had fewer – depending on what the MAC recommended – people coming in, the wages would go up a bit, but again by implication not by very much. So I don't think Brexit is going to suddenly mysteriously raise wages just like that....'

Another former member of the Migration Advisory Committee (2007 – 2015), Professor Jonathan Wadsworth of the London School of Economics' Centre for Economic Performance has published two papers – *Brexit and the Impact of Immigration on the UK (with Swati Dhingra, Gianmarco Ottaviano and John Van Reenen)* and *Immigration and the UK Economy*. In his second paper he writes that:

'The latest evidence suggests that neither immigration as a whole nor EU immigration has had significantly large negative effects on employment, wages and wage inequality for the UK born population.'

He acknowledges that:

'There are studies that do find negative wage effects of immigration (notably Dustmann et al, 2013; and Nickell and Saleheen, 2015, for the UK. However, these effects are very small (in the order of 1% lower wages). Taking

the evidence as a whole, it is hard to conclude that immigration effects in the UK are anything other than very small either way.'

What evidence there is on the effect of immigration on pay levels appears to have been published *before* the introduction of the National Living Wage in April 2016. Subject only to 'sustained economic growth' the Low Pay Commission has the job of recommending increases to the NLW so that, in April 2020, the rate represents 60% of median average earnings. The Low Pay Commission estimate this to be £8.75 per hour. The Conservatives' manifesto commitment is for post - 2020 increases to match the increase in average earnings so that the 60% ratio is maintained. As the NLW rate covers all of the UK – with very divergent local labour markets –it's unsurprising that the 60% target will already have been reached in one or two regions by 2018. The BHA's recent submissions to the Low Pay Commission have highlighted the significant impact of the NLW on many businesses' profit margins coming at the same time as cost increases from auto-enrolment, the Apprenticeship Levy, Business Rates and higher prices in imported goods and materials arising from Sterling's devaluation. An inability to protect margins through price rises because of the fall in consumer confidence and squeeze on corporate spending adds up to a 'perfect storm' for the sector.

In a recent report (<https://www.ifs.org.uk/publications/9205>) the Institute for Fiscal Studies looked at the parties' plans for the development of the National Living Wage. The authors state that higher minimum wages are not costless and, beyond some (unknown) level, must substantially increase unemployment. They go on to state:

'.....there will be a level beyond which a higher minimum wage will start to reduce employment. This is not in doubt and is implied by any reasonable description of how a labour market might work.....What is not clear is at precisely what point substantial job losses would materialise from further increases in the minimum wage'.

In their key findings, the IFS look at the coverage of the National Living Wage to 2020:

'4% of employees aged 25 and older were paid the National Minimum Wage on 2015. The Conservatives' "National Living Wage" currently covers 8% of employees aged 25 and over. This is forecast to rise to 12% under current Conservative plans by 2020 and to 22% in 2020 under Labour plans. In other words, over just five years we are looking at either a three - fold increase or a more than five-fold increase in the proportion of employees aged 25 and over paid the minimum wage.'

For all of these reasons we do not believe that substantial falls in Immigration would have a positive effect on wage levels within our sector. The introduction of the National Living Wage and the associated increase in other employees' pay rates (to maintain differentials) have already placed a significant strain on margins. It is unrealistic to expect further increases because of labour shortages; what is more likely, in the event of acute labour shortages (exacerbated by population changes), is stalled growth, a decline in investment and reduced levels of employment which would affect UK workers in the years ahead.

7. What should be the principles of a new post Brexit Immigration system for EU nationals and what would be its effect on the Hospitality Sector?

Free movement has meant the (largely) unrestricted flow of people from the EU to the UK over the last 20 years and its end means that there *will be* restrictions after we leave the Union. Simply transferring the existing arrangements for non EU nationals would mean that the Hospitality industry would, to all practical purposes, not be able to recruit anyone from the EU. So the new system needs to accommodate two principles:

- The ability to control numbers by having some form of numerical cap; and
- Allowing people to enter to do roles which can be described as ‘front-line’, ‘operational’, ‘service’, or ‘entry level’.

In terms of numbers, our approach has been to accept a declining reliance on EU migrants and we would expect the number to fall each year. Our starting point will be that the industry will need access to more than 60,000 in the first year but that number could be higher if the stock of EU workers continues to decline or lower in the event of a sudden increase in the level of UK unemployment.

There has been some suggestion that EU migrants would need to have a confirmed job and a contract of employment *before* they arrive in the UK. But this would create real problems at ports and airports and for industries like ours – where the need to recruit is often determined by sudden shifts in demand – wholly impractical. A further disadvantage is that this could encourage some employers to set up recruitment centres abroad and/or work with recruitment agencies on other countries. This would go against the grain of the industry’s recruitment methods in recent years.

We envisage EU citizens being free to come to this country after Brexit and, if they want to, apply for jobs when they are here. An employer will have to demonstrate to an Enforcement body that people have the *legal right to work* – a post-Brexit Work Permit or, for EU citizens who were in the UK before March 2019, evidence of the right to Permanent Residence. We accept that to gain public support and acceptance, the Enforcement regime needs to be effective with penalties for breach.

We are not in favour of Work Permits being allocated on a regional basis and this includes the home nations of Scotland, Wales and Northern Ireland. Many businesses operate throughout the UK or many parts of it and a regional permit would work against individual career progression.

We are wary of the potential bureaucracy with sectoral permits but they would have the advantage of complete openness. Business reliance would be ‘out in the open’ and this is an important part of rebuilding public trust in immigration. We accept that there are difficulties in defining the sector and allowing/not allowing people to move from one sector to another requires a set of rules which will be difficult to enforce. The alternative to a sectoral limit is an expanded Shortage Occupation List but this also provides difficulties as jobs have to be defined or grouped together in some way in some detail and labour flexibility is reduced.

Whatever be the exact system that is preferred we want the work permit to be for five years and that an employer would be able to renew it at the end of its term. The process for obtaining a work permit must be speedy and inexpensive. The important issue is that the overall numbers allowed entry each year would be determined by Parliament but we want businesses to have the freedom to keep an employee – obviously ‘using up’ a Work Permit from a future allocation.

The reason for this is rooted in the way that EU nationals are employed in our businesses today. They are full, equal members of our workforce, able to apply for a promotion, attend training and development events and so on. We don’t want a ‘first and second tier’ workforce after Brexit with ‘immigrant workers’ decoupled from the rest of the team. This runs against the way people work together in teams and would lead to divisions which reduces efficiency and lessens productivity.

EU nationals would then have the chance of developing their career and could be eligible for promotion to a role which carries with it a sufficient level of skill and salary to mean that they would be eligible to stay permanently. Our industry is much more vocationally than academically oriented and people have the chance to be running their own outlet, restaurant or service department very quickly after starting in a front-line role. (We are assuming that any future immigration system which provides for permanent settlement will be less restrictive for EU nationals than the existing Tier 2 requirements for non EU nationals.)

A Seasonal Workers Scheme would not adequately cover the needs of our industry. Very few businesses in the UK have a time-limited tourist season with business travel taking place year round for example. Furthermore, one of the objectives of the Tourism Sector Deal is to boost productivity by extending 'the season' wherever practicable.

The existing Tier 5 Youth Mobility Scheme is of value and could be extended to cover all EU countries as could the opportunities for students in full time education. Presently, the rules for students studying in the UK prevent some of them working. Students not at an approved Higher Education institution on an approved degree course cannot work at all. It's conceivable that an expansion of YMS and student opportunities could lead to fewer 5 Year Work Permits being required. Whatever is the mix between YMS and student workers and those on a 5 Year Period, the important objective to secure is a declining reliance by the industry on EU migrants which is achieved over a realistic timescale.

We may want to include a number of roles requiring language skills in the Shortage Occupation List as the country's weakness in foreign languages is a potential barrier to our ambitions to grow the Tourism sector. Furthermore, other professional roles such as chefs should be added.

8. The Process of Inquiry and Consultation by the Migration Advisory Committee

We very much welcome the Home Secretary's decision to ask the MAC to conduct such a detailed inquiry into the issue of EU migration – something we have been calling for since the start of 2017. We would like the MAC, in the future, to work in the same way as the Low Pay Commission and, after a process of evidence gathering and engagement with stakeholders, recommend work permit numbers for Parliamentary approval. In this way we can ensure that immigration reflects the genuine needs of businesses.

We would welcome the opportunity of discussing our submission with members of the MAC and hope that a meeting can be arranged quickly. We suggest that officials from the DCMS Tourism Secretariat join such a meeting.