



**BRITISH HOSPITALITY ASSOCIATION,
BRITISH BEER AND PUB ASSOCIATION,
BUSINESS IN SPORT AND LEISURE and
ASSOCIATION OF LICENSED MULTIPLE
RETAILERS**

TO THE

LOW PAY COMMISSION

ON

THE NATIONAL MINIMUM WAGE

9 OCTOBER 2013

SUMMARY

The hospitality and leisure industry has started to recover from the challenging economic situation of the past five years, with turnover and employment levels rising, but, while the hotel and restaurant, and sport and leisure sectors are improving, pubs are still suffering from closures.

INTRODUCTION

1. The British Hospitality Association is the national association for the hotel, restaurant and catering industry. Its members have a UK turnover of some £20 billion and employ some 500,000 people. Hotel members operate over 300,000 rooms; and membership also includes a dozen major restaurant chains, along with standalone operators; and most leading contract caterers.
2. The British Beer and Pub Association (BBPA) represents brewing companies and their pub interests, and pub owning companies, accounting for 96 per cent of beer production and just over half of the 49,500 pubs in the UK. A study carried out by Oxford Economics on behalf of the BBPA indicated that overall beer and pub activity is estimated to sustain some 600,000 direct jobs and £12.8 billion of wages across the UK from direct, indirect and induced effects. Over 80 per cent of pubs (i.e. almost 40,000 outlets) are small businesses which are independently managed or run by self-employed licensees.
3. Business In Sport and Leisure is a strategic body representing the private sector in the Sport and Leisure Business ranging from sports governing bodies and commercial sport and fitness operators through the major gaming companies to sections of the hospitality industry and the professional organisations that service them. A study with Oliver Wyman “The State of the UK Leisure Industry” published in June 2012 indicated the sector produced £117bn of direct expenditure and a further (in excess of £100bn) indirect expenditure and employed directly or indirectly 2.6m people including jobs for 730,000 young people aged 16-25.
4. The Association of Licensed Multiple Retailers (ALMR) is the only national trade body dedicated to representing licensed retail operators – those owning and running the outlets. Between them ALMR members operate over 14,000 pub, bar, nightclub, and casual dining businesses which between them employ over 335,000 people.

5. ALMR represents all the major national multiple pub, bar and nightclub operators, with hundreds of premises and high street branded food outlets, down to the small independent companies operating 20 outlets or fewer under their own branding, predominantly suburban community outlets. These are valuable social and economic assets – community centres, social spaces, tourist attractions and significant revenue generators – as well as providing a well regulated and controlled environment for people to enjoy alcohol responsibly and socially.
6. The ALMR carries out a number of relevant annual surveys on operating costs, employment and the NMW in particular and will be making an additional short statistical submission based on the results of these.
7. The associations have between them made a number of submissions to the Commission over the past sixteen years, including annual written and oral evidence and additional written submissions on the accommodation offset (1999), in 2003 and 2005 on whether increases already recommended (for 2004 and 2006 respectively) should proceed, and, in 2009, on the proposal that apprentices' pay should be brought into the NMW framework.
8. We turn now to comments on the industry situation before responding to the Commission's questions.

THE INDUSTRY SITUATION

GENERAL

9. Taking official figures first, the latest Annual Business Survey results for SIC (2007) codes 55 (accommodation) and 56 (food and beverage service), released in June 2013, relate to 2011, so are not very timely. They indicate that turnover for the whole sector rose from £68.3 billion in 2010 to £72.1 billion in 2011, that the fall in the number of enterprises between 2008 and 2010 (from 136,504 to 127,844) was reversed with a rise to 130,336 in 2011 and that employment rose by 67,000 between 2010 and 2011 to 1.87 million, having fallen by 102,000 over the previous two years. However, while analysis by Oxford Economics for the BHA indicates a rather higher figure for total employment in the industry, it is in line with the Low Pay Commission's statement in its 2013 report that hospitality employment rose significantly between 2010 and 2012 and has effectively recovered its 2008 level. The industry's Sector Skills Council People 1st (though these figures exclude sport and leisure) estimates that, including replacement demand, an additional 660,000 people will need to be recruited by 2020.

SECTORAL DEVELOPMENTS: HOTELS

10. The improvement in turnover in the hotel sector is shown in the latest TRI report, based on some 625 full-service hotels across the UK. In the twelve months to May 2013, the standard measure, RevPAR (revenue per available room), rose by 2.5 per cent, with London and the Provinces growing in tandem. Gross Operating Profit per available room (GOPPAR) rose by 1.8 per cent nationally. However, the rise in the Provinces to £29.52 compares unfavourably with the £37.11 GOPPAR achieved back in 2002. The rise in food and energy prices shows no sign of abating, while the dependency of many operators on Online Travel Agents, who can charge substantial sales commissions, has also impacted on profits.

SECTORAL DEVELOPMENTS: RESTAURANTS

11. As we reported last year, it is harder to give up-to-date statistics for the restaurant industry as a whole. The total number of outlets serving food, including hotels, restaurants, pubs, leisure operations and contract catering sites has been around 260,000 for a number of years, with pub closures offset by growth in quick service / fast food outlets. The Coffee Peach Business Tracker, which samples sales across 27 pub and restaurant chains, has stated that sales in the year to May 2013 were overall 4.1 per cent up on a year earlier, but collective like-for-like sales, stripping out new openings, were just 1.0 per cent ahead.

SECTORAL DEVELOPMENTS: PUBS

12. The economic situation continues to affect the pub sector, with the latest pub closure figures being put at a net 26 per week, up from 18 per week in early 2013. Community suburban pubs are still proving the most vulnerable at present. The provision of food has become increasingly important to pub businesses over the last decade, and the pub food market is currently estimated to be worth in the region of £6 billion per annum.
13. As we said last year, the majority of pubs are SMEs and are more exposed to sharp increases in inflationary pressures and costs than are larger retail chains and operations. The purchasing of fuel, energy and food for preparation and sale and local services is a decision that is most frequently made at the level of the individual pub. Pubs are therefore less able to benefit from the economies that can, for example, be enjoyed by larger retailers.

14. UK beer sales fell by 4.8 per cent in the second quarter of 2013, according to the BBPA's quarterly Beer Barometer. Losses in the on-trade (pubs, bars and restaurants) stood at 5.8 per cent. From March 2008 to March 2013, beer duty had risen by 42 per cent, although a two per cent cut in beer duty in the March budget and the abolition of the beer duty escalator will help the sector to grow – allowing both the retention and creation of jobs.
15. The in-home leisure market has expanded dramatically in recent years has had a major impact on the pub trade. The shift towards purchasing alcohol in supermarkets, has contributed to fewer customers visiting the pub. Around 70% of alcohol is now purchased through the off-trade.
16. Pubs are a major employer, and the Oxford Economics study for the BBPA demonstrates that the pub sector overall provides almost 850,000 jobs in the UK, including 600,000 of these in direct employment:

Pub	UK		
	GVA (£m)	Employment	Wages (£m)
Direct	7,746	592,951	4,945
Indirect	5,418	151,443	3,983
Induced	2,712	103,935	1,915
Total	15,876	848,329	10,842

Source: Annual Business Survey (ONS), NI Census of Employment (DETI), BBPA and Oxford Economics

17. Of these 600,000 direct jobs, 39% are full time and 61% part time roles. Pubs are especially reliant on young people, with almost half of the direct job positions (285,000) taken by those under 25 years of age. Of UK regions, London, the South West and the West Midlands all have more than half their direct pub employment taken by those under 25. On job creation, ALMR research on ONS Labour Market and Labour Force Surveys suggests that the industry was responsible in 2012 for generating 1 in 8 of all new jobs and 1 in 6 for 18-24 year olds. BBPA members report the creation of approximately 4,000 apprenticeships in their estates over the course of 2012-2013 and ALMR research reveals 6 per cent of all staff in the sector are currently participating in formal apprenticeships.

18. The Government, via the Police Reform and Social Responsibility Act, has introduced drastic proposals to reform the Licensing Act with the introduction of a late-night levy and restrictions on opening hours being introduced from October 2012. Over the course of 2013, a number of councils have consulted on introducing these powers which will have a pronounced economic impact on late-night operators and increase the costs associated with running their business: the levy is four times the cost of the current annual licence fee for affected businesses.
19. ALMR carries out an authoritative annual Benchmarking Report - providing information on key KPIs, including operating costs - which reveals that payroll costs now account for over a quarter of the average turnover for pub and bar businesses, rising to 34 per cent in food led outlets. Whilst the overall figure for the sector as a whole is up only slightly (1per cent), payroll costs for food led businesses have increased by more than 13per cent year on year. The increase in costs across all segments is largely driven by an investment in staff and in particular site management – managers’ salary costs have risen by 5per cent.
20. Despite the positive indicators for future growth in the sector revealed by the ALMR Benchmarking Survey, the sector remains volatile and highly responsive to external pressures. With overall net site operating costs now approaching 47 per cent of turnover and increasing for the first time in three years, overall net profit margins are slim and the ability for operators to absorb additional cost increases remains stretched. With payroll accounting for half of all operating costs, this is one of the few areas which the operator can influence and any precipitous change in costs could adversely impact on employment or investment in training and staff development.

SECTORAL DEVELOPMENTS: GAMBLING

21. The Gambling Commission reports an overall 5 per cent reduction on the same period from the previous year with slightly higher reductions on betting and bingo. It further reports the closure of around 40 betting shop premises and a loss of approximately 2000 job. Despite the continued year on year reduction in gross gaming sales in bingo the number of employees has increased from 17,494 to 17,896 whilst the number of operating casinos has remained stable but the number of employees has fallen from 13,576 to 13,084.

22. The majority of operators have few employees under 18, except occasionally in catering roles, and in any event the majority of 18 -21 year olds are paid at the NMW adult rate.

SECTORAL DEVELOPMENTS: SPORT AND LEISURE

23. The Sport and Fitness industry has experienced improved growth in the last twelve months to March 2013 with increases of 1.5% in value, 2% in the number of fitness facilities (167 new public and private fitness facilities) and a 4.5% rise in the number of members.(-leisure market analysts The Leisure Database Company). Since 2009, the fitness industry has grown its total market value by 4%, the member base by 8.3% and the number of fitness facilities by 3.9%.
24. The growth in the industry has been driven by strong performance from both private and public fitness facilities but especially from the rapidly growing private low cost market. The private low cost sector saw significant growth across all three key performance indicators - number of clubs, member numbers and total market value. This rapidly expanding market now accounts for 6% of the total number of private clubs, 6% of the private market value and an impressive 14% of the private sector membership.
25. However this growth comes at a price; as the low cost operators are having an impact on both average monthly membership fees and the yield per member across the industry. Membership and joining fees account for the largest share of health and fitness club revenues, at 80%, with the balance being accounted for by other sources such as catering, health and beauty treatments and retail but until March 2013 spending on secondary items has fallen in response to the squeeze on their disposable incomes. The lower cost membership reflect savings in less heavily staffed facilities and certainly in provincial areas this is reducing direct employment opportunities, albeit it does provide a platform for freelance health and fitness professionals.

IMPACT OF THE MINIMUM WAGE

Taking in turn the questions in the Commission's letter of 27 June 2013:

ECONOMIC AND POLICY CONTEXT

What are your views on the outlook for the UK economy, including employment and unemployment levels, for the period October 2014 – September 2015?

26. For our industry, three factors affect business prospects: disposable income, affecting leisure spending; the strength of the corporate sector; and inbound tourism.
27. A notable trend during the recession has been that individuals have cut back on personal spending, whether in the pub or when taking holidays; as the economy improves, this ought to begin to reverse.
28. Corporate cutbacks have affected the hotel and conference business, especially in those parts of the UK, such as Wales, where ‘corporate’ more often tends to mean ‘public sector.’ However, members report that, across the UK as a whole and especially in London, corporate business is returning.
29. Inbound tourism has done well after some difficult times during the recession: in the twelve months to June 2013, there were 2 per cent more inbound visitors than a year earlier. They spent 7 per cent more at a (nominal) record of £19.5 billion. The growth was entirely in business, non-leisure trips.
30. Overall, given the above, our expectations for the year 2014-15 are more optimistic than for earlier years.

What has been the impact of the NMW? Has this impact varied and if so how?

31. With the NMW now fourteen years old, we think that the main impact on hospitality and leisure businesses has been, as we have considered for many years, in compressing differentials.

What has been the impact of the minimum wage on young people and what effect do you think it has on their employment prospects?

32. A more recent change has been a move away from paying youth (18+) workers the adult rate and making greater use of the Development Rate. Given the levels of unemployment among young people, this is likely to stay the case for some time, and reinforces the arguments for a continued cautious approach in relation to increases in the Development Rate. Any precipitate change could adversely affect employment as the youth rate has been key to job creation.
33. We referred in our 2012 submission to the initiative by Business in the Community (now known as The Big Hospitality Conversation), under which hospitality employers have already committed, by June 2013, to create some 31,000 new jobs, apprenticeship opportunities and work placements for 18 to 24 year olds, focussed on unemployed people. The target for 2014 is to provide a further 60,000 job opportunities: the BHA, working with the industry careers body, Springboard UK, and the Department for Work and Pensions/ Jobcentre Plus) believes this is achievable, given this industry's ability to create jobs as we emerge from recession. In the pub sector, the Pub and Bar Perceptions campaign is creating work experience placements. It should be noted that many businesses continue to face recruitment difficulties, particularly chefs.

What has been the impact of the Apprentice Rate of the NMW?

34. We think the impact has been limited. Some employers may be using the Apprentice Rate (and apprenticeship) as the equivalent of a probationary period, but hospitality apprentices will often be doing the same work as non-apprentices in circumstances where different pay levels may not be practical. However, where used, the Apprentice Rate has been useful and should therefore be retained.

What is your view of the Commission's position that the current arrangements for the accommodation offset should be retained, and that it intends to recommend staged increases in the offset towards the value of the hourly adult rate of the NMW when economic circumstances mean the real value of the NMW is tending to rise?

35. The Commission will be aware that we have been calling for fourteen years (a) for the offset to be retained, and (b) for it to be increased to a more economic level. We were therefore very pleased to see the Commission's 2013 report in which it set out its position on retention and future increases.
36. We would be pleased to discuss the implications of this further with the Commission.

How far is there compliance with the NMW?

37. We believe there is a very high level of compliance. We have discussed with the Commission concerns about agency cleaners set hard to reach targets which may prevent them being paid the NMW, and hope that this issue will be finally resolved for all employers and affected agency staff. This is an area where HM Revenue and Customs's cultural approach to confidentiality makes it difficult to know whether their follow up actions have been effective.
38. We remain dissatisfied by the poor quality of guidance on the NMW provide on the GOV.UK website. Following discussion of this with the Commission in autumn 2012, the four associations wrote to the Cabinet Office Minister: the response promised continuous improvement, which is still awaited.

At what level should each of the rates of minimum wage be set on October 2014?

39. As we have stated in previous years, we do not want to get involved in detailed discussion of what the three rates (16-17, 18-20 and apprentice) should be, other than to note that the recovery is still uncertain, and that caution is still required and may be easier to justify in relation to the Development and 16/17 Rates.
40. For several years, we have put down a marker about the potential costs of the Auto-Enrolment pension scheme. However, as the starting point for compulsory contributions has been raised to the level of the Income Tax threshold, currently £9440 and, from April 2014, £10,000, the impact on hospitality employment is becoming less significant. Half of all hospitality workers are part-timers and the average wage cost per employee in 2011 was £10,680 (source: Annual Business Survey). However, the ALMR survey suggests that those larger members already being affected by Auto-Enrolment have had one-off administration costs averaging £500,000.
41. On 29 September 2013, we were advised by Commission officials that the Business Secretary had stated that, in addition to the Commission's ongoing annual remit, he was asking it "to extend [its] expertise to help the government and business understand how we can deal with the issue of low wages in the economy. In particular I have asked [it] to look at what economic conditions would be needed to allow the National Minimum Wage to rise by more than current conditions allow."

42. In its first seven years, from 1999 to 2006, the adult NMW increased by 49 per cent; in the last seven, to 2013, it has risen by 18 per cent. Especially since 2009, the Commission has rightly taken a cautious approach to increases, not only in the context of concerns about unemployment, particularly among young people, but also because of uncertainty about economic prospects even during the currency of a one year recommendation.
43. As a general principle, we think that there has to be a clear trend towards improved economic circumstances before there should be any change either to this cautious approach or to the policy of restricting commendations to one year ahead. Jobs must remain the priority. There also has to be recognition of the way in which wages can react to changing circumstances: in our written submissions and discussions with the Commission in the earlier days of the minimum wage, we were relaxed about the long standing aim of reducing to 21 the starting age for the adult rate. The evidence was that members were paying the adult rate to many under 22s. The recession led a number of employers to change policy: under 22s were now more likely to be paid the Development Rate instead of the adult rate. The same has happened to some extent with the apprentice rate, which some employers have started to use.
44. As economic circumstances improve, there is recent evidence that more under 21s are being advanced to the adult rate. In short, the market is working and will, if the optimistic view of the economy is justified, lead to wage increases for many workers regardless of the applicable NMW rates as demand for labour grows. None of this requires a formulaic or fixed methodology for NMW increases. It is worth adding that employers' National Insurance costs add 13.8 per cent to any increase in NMW rates.
45. However, we think it is reasonable to propose a series of conditions which would need to be met to change the Commission's current approach. The first, as already mentioned, is a clear and stable trend in the economy over perhaps a year. The second is confidence about economic circumstances two years ahead, that is, that the Commission would again be comfortable with making recommendations two years ahead. The third is that job creation in the lower paying sectors is reflecting increased business activity: we mention this because of concerns that productivity has apparently fallen across the economy as employment has increased more than output. If labour has indeed been hoarded, greater rises in GDP may not lead to commensurate further increases in jobs.

CONCLUSION

46. Finally, we should be pleased to discuss this submission with the Commission and confirm that we have no objection to it being made publicly available.

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