

# Final stage impact assessment

Title: Strengthen existing tipping law

Type of measure: Primary Legislation

Department or agency: Department for Business and Trade

IA number: DBT-039-24-CMRR

RPC reference number:

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## 1. Summary of proposal

1. The Employment (Allocation of Tips) Act<sup>1</sup>, and the statutory Code of Practice on fair and transparent distribution of tips<sup>2</sup>, came into effect on Tuesday 1st October 2024.
2. The Act requires employers to pass all tips on to workers without deductions. It also mandates that employers have a written policy on tip allocation. However, the Act does not require employers to consult with workers when developing these policies. The Code encourages employers to consult with their workers about the fairness of the tip allocation system. Regular reviews of the approach are advised to ensure that the method remains fair, especially in light of any changes in the workforce or business operations.
3. The Government believes this does not go far enough in protecting workers' interests and ensuring their voice is heard in decisions about tip allocation. The Government's 'Make Work Pay' plan pledged to "ensure hospitality workers receive their tips in full and workers decide how tips are allocated."
4. The Government is proposing to strengthen the law on tipping by mandating consultation with workers in all sectors where workers receive tips, as part of the Employment Rights Bill.

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<sup>1</sup> [Employment \(Allocation of Tips\) Act 2023 \(legislation.gov.uk\)](https://legislation.gov.uk)

<sup>2</sup> [Distributing tips fairly: statutory code of practice - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

## **2. Strategic case for proposed regulation**

5. The Government's intention is to ensure that workers are actively involved in the development of tipping policies. The expectation is that this increased involvement will lead to fairer tip allocation systems and greater worker satisfaction. Research from the Fair Work Convention suggests that many hospitality workers do not currently feel like they have influence over how decisions are made at the workplace<sup>3</sup>.

## **3. SMART objectives for intervention**

6. The policy objective is to make it mandatory for employers to consult with their staff in deciding how tips are distributed.
7. The intended outcomes are:
  - Fair and transparent distribution of tips, without deductions (other than required for tax law)
  - Genuine consideration of staff input when an organisation decides on their tipping policy
  - Improvements in worker satisfaction in tipping industries
  - Confidence for consumers that staff that provided the service had an opportunity to input into the tipping policy (if employed at the time their employer last consulted on the tipping policy)

## **4. Description of proposed intervention options and explanation of the logical change process whereby this achieves SMART objectives**

8. The policy objective is to make it mandatory for employers to consult with their staff in deciding how tips are distributed. Primary legislation is required to meet this objective. The preferred option is to legislate to mandate that workers are consulted on their organisation's tipping policy, including tip distribution.

## **5. Summary of long-list and alternatives**

9. Other options such as non-statutory guidance, self-regulation or amending the statutory Code of Practice are not expected to fully meet the Government's policy objective to make it mandatory for employers to consult with their staff in deciding how tips are distributed.

## **6. Description of shortlisted policy options carried forward**

10. The impact assessment estimates the likely impact of the preferred option: to legislate to mandate that workers are consulted on their organisation's tipping policy, including tip distribution.
11. The preferred option is expected to be applied to businesses of all sizes, including small and micro businesses. The exemption of small and micro businesses from this policy would have a significant adverse impact on the effectiveness of the policy: it would significantly reduce the share of businesses in tipping industries that are required to consult with their staff and,

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<sup>3</sup> [Fair Work Convention Survey of Hospitality](#)

in turn, significantly reduce the benefits of the policy such as improvements in staff satisfaction and a fairer distribution of tips. Moreover, a standard approach across business sizes:

- Ensures a level playing field for all businesses operating in the impacted sectors.
- Avoids a distortion of cost-competitiveness at the expense of medium and large businesses, which would undermine competition.
- Minimises complexity for businesses to understand and comply with the measures, as well as any enforcement costs.
- Ensures consumers can trust that when they leave a tip, it will be distributed fairly, regardless of venue.

12. This impact assessment finds that small and micro businesses are likely to experience a disproportionate share of the costs (when compared to their share of overall employment).

13. Following the introduction of primary legislation, the Government will consult on revisions to the Code of Practice, including seeking input from small and micro businesses. The revised Code of Practice is expected to provide guidance on how to undertake the consultations and will be easily available to businesses of all sizes.

14. As full details of implementation will not be decided until secondary legislation is laid in Parliament, this impact assessment makes a number of illustrative assumptions that will be tested and refined in any further impact assessments, including the estimated impact on small and micro businesses.

## 7. Regulatory scorecard for preferred option

### Part A: Overall and stakeholder impacts

(1) Overall impacts on total welfare		Directional rating
		Note: Below are examples only
<b>Description of overall expected impact</b>	<p>The policy benefits workers in tipping industries through higher job satisfaction. The policy could have a redistributive effect within those industries, benefitting groups that would otherwise have less scope to inform their employer's tipping policy through higher income. These impacts are non-monetised.</p> <p>There are monetised costs to businesses of familiarising themselves with the policy and consulting with staff, and due to lost output as staff spend time providing their views.</p> <p>The overall direction is uncertain and will, partly, depend on the policy detail in secondary legislation.</p>	<p><b>Uncertain</b></p> <p>Based on all impacts (incl. non-monetised)</p>
<b>Monetised impacts</b>	<p>NPSV -£59.4m (with a range of between -£233.9m and -£14.3m) (2023 prices, 2026 present value).</p>	<p><b>Negative</b></p> <p>Based on likely £NPSV</p>

<b>Non-monetised impacts</b>	<p>The policy benefits workers in tipping industries through higher job satisfaction. The policy could have a redistributive effect within those industries, benefitting low-paid workers and other groups e.g. young workers that would otherwise have less scope to inform their employer's tipping policy. Some workers could lose out due to the policy, but the overall direction of impacts is expected to be positive based on positive redistribution effects.</p> <p>The policy could improve staff productivity, reduce disputes over the allocation of tips, and improve business reputation and customer loyalty.</p>	<b>Positive</b>
<b>Any significant or adverse distributional impacts?</b>	Yes – as above.	<b>Positive</b>

## (2) Expected impacts on businesses

<b>Description of overall business impact</b>	<p>The monetised costs to business are in three categories: (a) one-off familiarisation cost, (b) recurring cost due to consulting with staff on tipping policies, and (c) recurring cost due to lost output as staff spend time providing their views. There are potential non-monetised benefits to businesses, including higher staff productivity, fewer disputes on the allocation of tips, and improvements in business reputation and customer loyalty. The overall direction is uncertain and will, partly, depend on the policy detail in secondary legislation.</p>	<b>Uncertain</b> <b>Based on all impacts (incl. non-monetised)</b>
<b>Monetised impacts</b>	<p>Business NPV -£59.4m (with a range of between -£233.9m and -£14.3m) (2023 prices, 2026 present value).</p> <p>EANDCB £6.9m (with a range of between £1.7m and £27.2m) (2023 prices, 2026 present value).</p>	<b>Negative</b> <b>Based on likely business £NPV</b>
<b>Non-monetised impacts</b>	The policy could improve staff productivity, reduce disputes over the allocation of tips, and improve business reputation and customer loyalty.	<b>Positive</b>
<b>Any significant or adverse distributional impacts?</b>	Yes. The policy is expected to impact businesses in sectors where customers' provide tips for services. This includes sectors such as restaurants, pubs and bars.	<b>Neutral</b>

### (3) Expected impacts on households

<b>Description of overall household impact</b>	<p>The policy will ensure that workers can be actively involved in the development of tipping policies, leading to a fairer allocation of tips and greater worker satisfaction.</p> <p>The intention of the policy is to ensure that tipping policies are fair. This could particularly benefit workers in scope of the policy who have less voice in the workplace in the 'business as usual' scenario, i.e. these workers could experience an increase in their incomes due to receiving a higher share of tips. The policy could reduce inequality in pay within tipping industries by increasing the income of lower-paid staff and other groups (e.g. young workers) that otherwise have fewer opportunities to inform their organisation's tipping policy.</p> <p>Some workers could lose out due to the policy, but the overall direction of impacts is expected to be positive based on positive redistribution effects.</p>	<b>Positive</b>
<b>Monetised impacts</b>	<p>We do not monetise any impacts on households.</p>	<b>Uncertain</b> <b>Based on likely household £NPV</b>
<b>Non-monetised impacts</b>	<p>As above.</p>	<b>Positive</b>
<b>Any significant or adverse distributional impacts?</b>	<p>Yes – as above.</p>	<b>Positive</b>

### Part B: Impacts on wider Government priorities

Category	Description of impact	Directional rating
<b>Business environment:</b>  <b>Does the measure impact on the ease of doing business in the UK?</b>	<p>The policy is not anticipated to significantly impact on the business environment. The policy is intended to improve fair competition by ensuring that businesses cannot out-compete others by implementing a tipping policy without taking the time to consult with their staff. The policy is expected to be applicable across the economy.</p>	<b>Neutral</b>

<p><b>International Considerations:</b></p> <p>Does the measure support international trade and investment?</p>	<p>The policy is not expected to have an impact on international trade and investment.</p>	<p><b>Neutral</b></p>
<p><b>Natural capital and Decarbonisation:</b></p> <p>Does the measure support commitments to improve the environment and decarbonise?</p>	<p>The policy is not expected to have an impact on the environment.</p>	<p><b>Neutral</b></p>

## 8. Monitoring and evaluation of preferred option

15. The preferred option falls outside of the statutory review requirements under the Small Business Enterprise and Employment Act 2015, as it will be delivered through primary legislation for which the full details of implementation will not be decided until secondary legislation is laid in Parliament.
16. To determine whether the policy has met its objectives, we will be monitoring its impacts. It is expected that the policy will be reviewed as part of the non-statutory post-implementation review planned for the Employment (Allocation of Tips) Act 2023 in 2029. More detail on the post-implementation review can be found in the impact assessment for the Act. The review is expected to be supplemented by evidence to test the specific objectives and impacts of this policy, including how businesses are consulting with staff, whether the cost to business is as estimated, how the policy has changed the distribution of tips among staff in tipping industries, any impact on worker satisfaction, and potential unintended consequences.

## 9. Minimising administrative and compliance costs for preferred option

17. Following the introduction of primary legislation, the Government will consult on revisions to the Code of Practice, including seeking input from small and micro businesses. The revised Code of Practice is expected to provide guidance on how to undertake the consultations and will be easily available to businesses of all sizes.

## Summary: Analysis and evidence

For Final Stage Impact Assessment, please finalise these sections including the full evidence base.

Price base year:

2023

PV base year:

2026

	<b>1. Business as usual (baseline)</b>	<b>2. Preferred way forward (if not do-minimum)</b>
<b>Net present social value</b> (with brief description, including ranges, of individual costs and benefits)	Used as baseline for the analysis	Estimated NPSV of -£59.4m (with a range of between -£233.9m and -£14.3m). The impact assessment monetises the cost to businesses of familiarising themselves with the policy and consulting with staff, and due to lost output as staff spend time providing their views.
<b>Public sector financial costs</b> (with brief description, including ranges)	Used as baseline for the analysis	The impact assessment qualitatively discusses the possible impact of the policy on the number of disputes (and, therefore, the volume of disputes reaching ACAS and employment tribunals). The overall direction is uncertain, and will depend on the final policy detail.
<b>Significant un-quantified benefits and costs</b> (description, with scale where possible)	Used as baseline for the analysis	The impact assessment qualitatively discusses other possible impacts on businesses and households (e.g. higher staff productivity, positive redistribution effects) that could have a positive effect on the NPSV.
<b>Key risks</b> (and risk costs, and optimism bias, where relevant)	Used as baseline for the analysis	There are a range of risks related to the limitations of the evidence base (e.g. share of businesses that are already compliant with the policy in the baseline) and the policy design (e.g. how much weight employers should place on feedback from staff, and how they should manage instances where there is no clear consensus among staff). These risks are expected to be mitigated through further evidence-building and a consultation on revised to the Code of Practice.

<b>Results of sensitivity analysis</b>	Used as baseline for the analysis	The impact assessment includes a range of sensitivity analysis on monetised estimates. The assumptions are expected to be tested and refined prior to secondary legislation that fully implements that policy.
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# Evidence base

## Problem under consideration, with business as usual, and rationale for intervention

18. The Employment (Allocation of Tips) Act<sup>4</sup>, and the statutory Code of Practice on fair and transparent distribution of tips<sup>5</sup>, came into force and effect on Tuesday 1st October 2024.
19. The Act requires employers to pass all tips on to workers without deductions. It also mandates that employers have a written policy on tip allocation. However, the Act does not require employers to consult with workers when developing these policies. The Code encourages employers to consult with their workers about the fairness of the tip allocation system. Regular reviews of the approach are advised to ensure that the method remains fair, especially in light of any changes in the workforce or business operations.
20. The Government believes this does not go far enough in protecting workers' interests and ensuring their voice is heard in decisions about tip allocation. The Government's 'Make Work Pay' plan pledged to "ensure hospitality workers receive their tips in full and workers decide how tips are allocated." The Government is proposing to strengthen the law on tipping by mandating consultation with workers in all sectors where workers receive tips, as part of the Employment Rights Bill.
21. The Government's intention is to ensure that workers are actively involved in the development of tipping policies. Tipping industries typically employ a higher number or large share of low-paid workers<sup>6</sup>, and have lower average pay than the economy-wide average<sup>7</sup>. Wider research by the Chartered Institute of Personnel and Development (CIPD) finds that lower-paid occupations (such as bar staff or waiters) tend to be associated with lower scores in their employee voice index (measuring, for example, opportunities for staff to input views to their employer) than managerial occupations<sup>8</sup>. The expectation is that the policy will help to readdress imbalances in employee input into employer decision-making, and will lead to fairer tip allocation systems and overall greater worker satisfaction.

## Policy objective

22. The policy objective is to make it mandatory for employers to consult with their staff in deciding how tips are distributed.
23. The intended outcomes are:
  - Fair and transparent distribution of tips, without deductions (other than required for tax law).
  - Genuine consideration of staff input when an organisation decides on their tipping policy.
  - Improvements in worker satisfaction in tipping industries.

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<sup>4</sup> [Employment \(Allocation of Tips\) Act 2023 \(legislation.gov.uk\)](https://legislation.gov.uk)

<sup>5</sup> [Distributing tips fairly: statutory code of practice - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

<sup>6</sup> [Low-paying sectors review - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

<sup>7</sup> [Low-paying sectors review - GOV.UK \(www.gov.uk\)](https://www.gov.uk)

<sup>8</sup> For example, the median pay for employees in 'Restaurants and mobile food services activities' sector was £10.62 in April 2023, compared to the economy-wide median of £15.88. [Earnings and hours worked, industry by four-digit SIC: ASHE Table 16 - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk)

- Confidence for consumers that staff that provided the service had an opportunity to input into the tipping policy (if employed at the time their employer last consulted on the tipping policy).

## Description of options considered

24. This Impact Assessment considers two shortlist options:

- **Option 0 – Business As Usual.** This option would mean a continuation of the current tipping policy, i.e. the Employment (Allocation of Tips) Act and statutory Code of Practice that came into force and effect on 1<sup>st</sup> October 2024. Employers would be encouraged, rather than required, to consult with staff on their tipping policy, including the distribution of tips. This option does not deliver on the Government’s policy objective, and so is discounted. The costs and benefits of Option 1 is measured relative to the ‘business as usual’ position (i.e. this represents the counterfactual in the analysis).
- **Option 1 – Legislate to mandate that workers are consulted on their organisation’s tipping policy, including tip distribution.** This requires primary legislation and is the preferred option. This option is expected to meet the Government’s policy objective.

25. Other options (such as non-statutory guidance, self-regulation or amending the statutory Code of Practice) are not expected to fully meet the Government’s policy objective to make it mandatory for employers to consult with their staff in deciding how tips are distributed.

## Summary and preferred option with description of implementation plan

26. The Government is proposing to introduce primary legislation to amend the Employment Rights Act 1996 provisions inserted by the Employment (Allocation of Tips) Act 2023 to mandate that workers are consulted on their organisation’s tipping policy, including tip distribution.

27. The Employment (Allocation of Tips) Act 2023 requires that amendments to the Code of Practice on fair and transparent distribution of tips are subject to consultation by the Government. The Government therefore intends to consult on revisions to the Code of Practice which will clarify expectations on how employers in tipping industries should consult with their staff.

28. We propose that these provisions come into force on 1<sup>st</sup> October 2026, or 12 months after Royal Assent, whichever is earlier. It is expected that the provisions will be enforced through employment tribunals.

## NPSV: monetised and non-monetised costs and benefits of each shortlist option (including administrative burden)

### Previously published Impact Assessment (IA)

29. The previous Government published a full IA for the Employment (Allocation of Tips) Act 2023 (hereafter, “2022 IA” based on the date on the IA)<sup>9</sup>. The 2022 IA was developed under a previous Better Regulation Framework and was Green rated by the Regulatory Policy

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<sup>9</sup> [Impact Assessment \(parliament.uk\)](https://www.parliament.uk)

Committee. For the preferred option, the 2022 IA estimated an Equivalent Annual Net Direct Cost to Business (EANDCB) of £223.2m (2019 prices, 2020 present value) and a Total Net Present Social Value (NPSV) of -£435.6m (2019 prices, 2020 present value).

30. The cost to business consisted primarily of recurring annual costs of around £200m per year as businesses no longer make deductions from payments for service (other than those required for tax law). This is a transfer from businesses to workers: around 1 million workers in tipping industries where deductions are prevalent (restaurants, pubs and bars) were estimated to receive a corresponding benefit of £200m per year.
31. The 2022 IA also monetised (a) one-off transitional costs of around £8m, such as familiarisation costs and other administrative costs due to necessary changes to workers' contracts (whenever these already mention tips) and payroll systems (to remove deductions); and (b) other recurring annual costs of around £50m, as businesses keep sufficient records to demonstrate compliance and respond to workers' requests for information. The IA did not specifically monetise the cost of employers consulting with their staff on their tipping policy.
32. As a result, the NPSV of the policy was estimated to be negative. However, as the transfer from businesses to workers was expected to mainly benefit low-paid workers, the policy was expected to lead to significant positive distributional effects beyond the monetised estimates. In addition, the 2022 IA did not monetise the potential benefits to business of more productive staff and improvements in business reputation and customer loyalty, or the benefits to workers who are already receiving their tips in full but now gain additional protections. The IA noted that there were some risks for workers in tipping industries, including that businesses could respond to the policy by reducing workers' basic pay, but these effects were considered unlikely.

### **Scope of this IA**

33. Overall, we have applied proportionality principles (i.e. the expected impact of the policy on businesses, households, and the wider economy) to determine the detail of the analysis. This IA does not aim to reproduce or update all the analysis in the 2022 IA, given much of this analysis is beyond the scope of the new policy.
34. The impacts of secondary legislation are uncertain given the legislation is subject to further policy development and a formal consultation. However, to illustrate as much as possible the potential impacts of the secondary legislation, we have considered that the following high-level principles will apply:
  - **Mandatory Consultation:** Employers will be required to consult with workers during the development or revision of their written tipping policies. This consultation must occur at the formative stage before the policy is finalised or updated.
  - **Record-Keeping:** Employers must maintain detailed records of the consultation process, including worker feedback and how it influenced the final policy. These records should be kept for three years and be accessible to workers upon request.
  - **Transparency and Access:** Workers will have the right to request and review records related to the tipping policy consultation.

### **Population affected**

35. We adopt a similar approach to the 2022 IA to estimate the number of workers and businesses affected by the policy. The table below summarises the number of businesses and employees in tipping industries as identified in the 2022 IA:

*Table 1: Estimates of number of businesses and workers affected*

Industry	Number of businesses	Employment
Restaurants and mobile food service activities	93,570	1,192,000
Beverage serving facilities	27,290	502,000
Hotels and similar accommodation	8,780	358,000
Other passenger land transport (including taxi operation)	7,555	198,000
Gambling and betting activities	795	81,000
Other personal service activities (including hairdressing and other beauty treatments)	60,235	322,000
<b>All tipping industries</b>	<b>198,225</b>	<b>2,653,000</b>

Source: 2023 Business Population Estimates<sup>10</sup>. SIC codes: Restaurants and mobile food service activities (56.1), Beverage serving facilities (56.3), Hotels and similar accommodation (55.1), Other passenger land transport (including taxi operation) (49.3) \*, Gambling and betting activities (92.0), Other personal service activities (including hairdressing and other beauty treatment) (96.0) \*.

\* Due to data availability, the figures show these broader industry groups, rather than the specific tipping industries of interest.

## **Costs to business**

### *One-off costs to business*

36. We assume that businesses will incur a one-off familiarisation cost over and above the cost calculated in the 2022 IA. This is based on two key arguments: this policy is a substantive change, and the familiarisation costs for the Act and existing Code of Practice are likely to have already been incurred by businesses. We assume that familiarisation will be undertaken by a Corporate Manager / Director in a small or micro business, and an HR Manager / Director in medium or large businesses. We assume it will take them between 10 and 30 minutes (with a central assumption of 20 minutes) to familiarise themselves with the new policy. This includes the time needed to access the new legislation and Code of Practice, read them and understand their implications.

37. The assumptions made to estimate the impact of employers in tipping industries of familiarising themselves with the new requirements are summarised in the table below.

<sup>10</sup> [Business population estimates 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/business-population-estimates-2023)

Table 2: Assumptions to estimate costs to business of familiarising themselves with the policy

	Number of employers	Employees undertaking familiarisation	Time taken	Average (median) hourly pay <sup>11</sup>
Small and micro businesses	194,115	1 Corporate Manager / Director	10 – 30 mins (central: 20 mins)	Corporate Manager / Director: £26.52
Medium and large businesses	4,110	1 HR Manager / Director	10 – 30 mins (central: 20 mins)	HR Manager / Director: £26.31

38. We uplift the average hourly pay by 21.0% to account for non-wage labour costs<sup>12</sup>. Based on this methodology, we estimate that the one-off cost to employers in tipping industries of familiarising themselves with the new requirement would be between £1.1m and £3.2m (with a central estimate of £2.1m).

39. We expect that businesses would not incur any other one-off administrative costs. For example, this policy is not expected to add, or change the complexity of, steps that businesses need to follow to implement a tipping policy (e.g. amending workers' contracts or updating payroll systems).

#### Recurring costs to business

40. The 2023 Act, and Code of Practice published in July 2024, require employers to have a written tipping policy which should include how tips are allocated and distributed, and what steps the employer takes to ensure tips are handled fairly and transparently in accordance with the Act. As a result, this is considered to be part of the 'business as usual' baseline for the purposes of our analysis.

41. In the consultation on the draft Code of Practice published in April 2024, 57% of employers reported that they had sought agreement from or consulted their staff on the distribution and allocation of tips. The consultation responses do not enable us to determine exactly *how* employers consulted with their staff and, for example, whether this occurred every time the employer made a change to their tipping policy. At the same time, the Code of Practice, as it currently stands, strongly encourages employers to consult with their staff and notes this could help a tribunal conclude it to be considered fair and reasonable; this could increase the share of businesses consulting with staff in the 'business as usual' scenario after the Code of Practice comes into effect (1<sup>st</sup> October 2024).

42. The wider evidence suggests that workers in larger organisations are more likely to report channels through which they can express their views in the workplace than smaller organisations<sup>13</sup>. However, it is unclear the extent to which this trend is applicable to tipping industries specifically. Analysis of the responses to the consultation on the draft Code of Practice shows some variation by business size, but does not show a clear, consistent pattern where the likelihood of consulting with staff increases with business size.

<sup>11</sup> [Earnings and hours worked, occupation by four-digit SOC: ASHE Table 14 - Office for National Statistics \(ons.gov.uk\)](#). Provisional 2023 data. SOC code for Corporate Manager / Director is 11 and for HR Manager / Director is 1136

<sup>12</sup> DBT analysis of the UK National Accounts

<sup>13</sup> [CIPD Good Work Index 2021: survey report](#)

43. On balance, we adopt a cautious approach and draw on the responses to the draft Code of Practice for our central assumption on the share of businesses that will need to implement new process to consult with staff on their tipping policy (40%), with a range of between 30% and 50% to reflect behavioural changes once the current Code of Practice comes into effect and the uncertainty around the responses to the consultation to the draft Code of Practice. We apply this assumption across both business size groups (small and micro, and medium and large).
44. The Code of Practice, as it currently stands, states that “an employer’s approach to allocating tips should be reviewed on a regular basis in line with staff turnover and any wider changes to the organisation”. Employers could review their tipping policy at the same rate as changes to their staff wages, which is typically once per year.<sup>14</sup> This is likely to be a cautious assumption as the pace of organisational change and staff turnover may not be sufficient on annual basis to justify changes to the tipping policy. For example, research by the Resolution Foundation found that around 5% of workers in the hospitality sector moved jobs per quarter in the period between 2015-2019<sup>15</sup>. As a result, we have assumed that businesses will want to make changes to their tipping policy between once every year and once every three years (with a central estimate of every two years).
45. The specific requirements on employers, and the level of flexibility they will have to tailor the consultation process, will be subject to further consultation. At this stage, we generally expect the additional costs of undertaking consultations to include:
- Engagement with staff, either directly with affected staff or through trade unions.
  - Consideration of staff input, including addressing questions, concerns or new proposals.
  - Creation of a detailed record of the consultation and how staff input was considered.
46. A small share (around 9%) of employee jobs in the Accommodation and Food Services sector had pay set with reference to an agreement covering multiple employees (collective agreement) in 2023<sup>16</sup>. This compares to around 39% across all jobs. Similarly, trade union density (trade union membership as a proportion of employees) was around 2% in the Accommodation and Food Services sector in 2023, compared to around 22% across all employees. For the purposes of this IA, we make the cautious assumption that employers will consult directly with staff, with the important caveat that this is not expected to apply across all employers. This is a cautious assumption as engagement with all staff affected is generally expected to be more onerous for employers, given that trade unions can collate and summarise staff input.
47. We assume that medium and large businesses will need more time than small and micro businesses to undertake consultations. This is on the basis that a larger number of staff could increase the complexity of staff input to the consultation. We have made illustrative assumptions that the time required to undertake a consultation is between 2 and 6 hours for a Corporate Manager / Director in a small or micro business (with a central estimate of 4 hours), and between 2 and 6 hours for an HR Manager / Director and two HR Administrative Assistants in a medium or large business (with a central estimate of 4 hours). There is no robust evidence on which to base assumptions on the time required to undertake consultations, and we expect to further test and refine these assumptions during the consultation on the revised Code of Practice.

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<sup>14</sup> [Latest results from the Decision Maker Panel survey - 2024 Q2 | Bank of England](#)

<sup>15</sup> [Changing-jobs.pdf \(resolutionfoundation.org\)](#)

<sup>16</sup> [Trade union statistics 2023 - GOV.UK \(www.gov.uk\)](#)

48. The assumptions made to estimate the impact of employers in tipping industries undertaking consultations with staff on their tipping policy are summarised in the table below. These assumptions are subject to a high degree of uncertainty.

*Table 3: Assumptions to estimate costs to business of undertaking consultations with staff*

	Number of employers	Frequency of consultations	Employees undertaking consultation	Time taken	Average (median) hourly pay
Small and micro businesses	Between 58,235 and 97,058 (central: 77,646)	Every 1 to 3 years (central: every 2 years)	1 Corporate Manager / Director	Between 2 and 6 hours (central: 4 hours)	Corporate Manager / Director: £26.52
Medium and large businesses	Between 1,233 and 2,055 (central: 1,644)	Every 1 to 3 years (central: every 2 years)	1 HR Manager / Director and 2 HR Administrative Assistants	Between 2 and 6 hours (central: 4 hours)	HR Manager / Director: £26.31 HR Administrative Assistant: £12.55

49. We uplift the average hourly pay by 21.0% to account for non-wage labour costs<sup>17</sup>. Our central estimate for the annual cost to employers in tipping industries undertaking consultations with staff on their tipping policy is £5.2m per year. If we were to 'layer' our low and high assumptions, then the annual cost to employers could be between £1.3m and £19.5m per year. This is a wide range, reflecting the uncertainty on some of our assumptions.

50. The policy may have additional impacts on businesses as workers spend time inputting into the consultation, leading to lost output for the business. These impacts are challenging to estimate as this will depend on the specific requirements in the revised Code of Practice, which are subject to further consultation with stakeholders. Even if a specific threshold is not stated in the Code of Practice, it is reasonable to assume that businesses will need to encourage staff input for the consultation to be considered compliant. Given the high level of uncertainty, we make the following illustrative assumptions:

- Employers will undertake consultation every 1 to 3 years (with a central estimate of every 2 years). This is consistent with the approach taken above.
- 40% of employees in tipping industries will be subject to consultation on their organisation's tipping policy due to the new requirements, with a range of 30% to 50% in our sensitivity analysis. This aligns with the assumption above on the share of businesses that will need to start consulting staff.
- Inputting into a consultation will take each employee between 10 and 30 mins (with a central estimate of 20 mins).
- Some, but not all, staff will choose to respond to their organisation's consultation. We have assumed that this ranges from 40% to 80% of employees (with a central estimate of 60%).
- We have used the weighted average (median) hourly pay for staff across tipping industries identified in this IA.
- The assumptions above apply to all business size groups.

<sup>17</sup> DBT analysis of the UK National Accounts

Table 4: Assumptions to estimate costs to business of lost output as workers respond to consultations

	Number of workers	Frequency of consultations	Response rate to consultations	Time taken to respond to consultation	Weighted average (median) hourly pay in tipping industries
Small and micro businesses	Between 409,800 and 683,000 (central: 546,400)	Every 1 to 3 years (central: every 2 years)	Between 40% and 80% (central: 60%)	Between 10 mins and 30 mins (central: 20 mins)	£11.44
Medium and large businesses	Between 386,400 and 644,000 (central: 515,200)	Every 1 to 3 years (central: every 2 years)	Between 40% and 80% (central: 60%)	Between 10 mins and 30 mins (central: 20 mins)	£11.44

51. We uplift the average hourly pay by 21.0% to account for non-wage labour costs<sup>18</sup>. Our central estimate for the annual cost to employers in tipping industries due to lost output is £1.5m per year. If we were to ‘layer’ our low and high assumptions, then the annual cost to employers could be between £0.2m and £7.3m per year. This is a wide range, reflecting the uncertainty on some of our assumptions.

52. Based on our monetised estimates, we estimate an NPSV of -£59.4m (with a range of between -£233.9m and -£14.3m) (2023 prices, 2026 present value). It is important to note that there are potentially significant non-monetised impacts (outlined ‘Non-monetised impacts’ section) that could have a positive effect on the NPSV.

## Costs and benefits to business calculations

53. Based on our monetised estimates, our estimate of the Equivalent Annual Net Direct Cost to Business (EANDCB) is £6.9m (with a range of between £1.7m and £27.2m) (2023 prices, 2026 present value). It is important to note that there are potentially significant non-monetised impacts (outlined ‘Non-monetised impacts’ section) that could have a positive indirect effect on businesses.

## Impact on small and micro businesses

54. The table below shows that around 98% of tipping industries’ businesses are small or micro businesses (broadly similar to their representation across the whole economy). Around 51% of workers in tipping industries are employed in small and micro businesses, compared to 37% across the whole economy, according to the Business Population Estimates 2023 (not shown in table).

<sup>18</sup> DBT analysis of the UK National Accounts



Table 5: Number of businesses affected by business size

Industry	Number of businesses	Micro	Small	Medium	Large
Restaurants and mobile food service activities	93,570	72,305	19,655	1,245	365
Beverage serving facilities	27,290	17,115	9,675	455	45
Hotels and similar accommodation	8,780	3,980	3,500	1,150	150
Other passenger land transport (including taxi operation)	7,555	5,745	1,470	270	70
Gambling and betting activities	795	475	215	75	30
Other personal service activities (including hairdressing and other beauty treatments)	60,235	55,470	4,510	230	25
All tipping industries	198,225	155,090	39,025	3,425	685

Source: 2023 Business Population Estimates<sup>19</sup>. SIC codes: Restaurants and mobile food service activities (56.1), Beverage serving facilities (56.3), Hotels and similar accommodation (55.1), Other passenger land transport (including taxi operation) (49.3) \*, Gambling and betting activities (92.0), Other personal service activities (including hairdressing and other beauty treatment) (96.0) \*.

\* Due to data availability, the figures show these broader industry groups, rather than the specific tipping industries of interest.

55. The table below outlines the central estimates of the monetised cost to business. Small and micro businesses are estimated to incur:

- 98% of the one-off familiarisation costs (similar to the share of small and micro businesses across whole economy, but higher than the share of employment in small and micro businesses).
- 96% of the annual cost of undertaking consultations (slightly lower than the share of small and micro businesses across whole economy, but higher than the share of employment in small and micro businesses). Importantly, this reflects the current assumption that the share of businesses consulting with their staff in the 'business as usual' scenario is the same across business size groups.
- 51% of the annual cost due to lost output (considerably lower than the share of small and micro businesses across whole economy, but still higher than the share of employment in small and micro businesses). Importantly, this reflects a methodology where costs are scaled according to the number of employees.

<sup>19</sup> [Business population estimates 2023 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/business-population-estimates-2023)

Table 6: Summary of monetised costs by business size

	One-off familiarisation cost (central)	Annual cost of undertaking consultations (central)	Annual cost due to lost output (central)
Small and micro businesses	£2.08m	£4.98m	£0.76m
Medium and large businesses	£0.04m	£0.20m	£0.71m

56. The Government will consult on revisions to the Code of Practice, including seeking input from small and micro businesses. The revised Code of Practice is expected to provide guidance on how to undertake the consultations and will be easily available to businesses of all sizes.

57. It is not anticipated that small and micro businesses will be exempt from the policy. The exemption of small and micro businesses from this policy would have a significant adverse impact on the effectiveness of the policy, as it would significantly reduce the share of businesses in tipping industries that are required to undertake consultations on their tipping policies with their staff. Moreover, a standard approach across business sizes:

- Ensures a level playing field for all businesses operating in the impacted sectors.
- Avoids a distortion of cost-competitiveness at the expense of medium and large businesses, which would undermine competition.
- Minimises complexity for businesses to understand and comply with the measures, as well as any enforcement costs.
- Ensures consumers can trust that when they leave a tip, it will be distributed fairly, regardless of venue.

### Costs and benefits to households calculations

58. The 'Non-monetised impacts' section outlines qualitatively some of the potential impacts of the policy on households. Due to methodological limitations, this Impact Assessment does not quantify the Equivalent Annual Net Direct Cost to Households (EANDCH).

### Non-monetised impacts

59. The policy will ensure that workers can be actively involved in the development of tipping policies, leading to a fairer allocation of tips and greater worker satisfaction. As a result, workers may become more productive at work. The 'Fair Work Convention Survey of Hospitality Workers and Businesses in Scotland 2023' found that 62% of hospitality workers taking part in the survey have a channel through which they can have their voice and opinion listened to at work, whilst 43% agreed that they felt that their voice and the collective voice of their co-workers was taken into account when decisions were made at work<sup>20</sup>. Research by CIPD finds that satisfaction with voice underpins overall job satisfaction<sup>21</sup>. Meanwhile, a literature review published by Carnegie UK finds that indicators of 'voice and representation' from the UK Skills and Employment Survey (e.g. whether workers think they would personally have a say in decision-making) are positively associated with sector-level productivity<sup>22</sup>.

<sup>20</sup> [Fair Work Convention Survey of Hospitality](#)

<sup>21</sup> [talking-about-voice\\_employees-experiences\\_tcm18-54482.pdf \(cipd.org\)](#)

<sup>22</sup> [Does good work have a positive effect on productivity? Research findings - Carnegie UK Trust](#)

60. The policy is not expected to impact the overall value of tips transferred from employers to workers, but could affect the distribution of tips among staff within an organisation. The intention of the policy is to ensure that tipping policies are fair. This could particularly benefit workers in scope of the policy who have less voice in the workplace in the 'business as usual' scenario, i.e. these workers could experience an increase in their incomes due to receiving a higher share of tips. For example, the 'Fair Work Convention Survey of Hospitality Workers and Businesses in Scotland 2023'<sup>23</sup> found that the following groups were less likely to report that they had opportunities for voice and opinions to be heard at work:

- Women (60%) compared to men (67%) – not statistically significant.
- Workers aged 16-34 years old (50%) compared to workers aged 35+ years old (74%) – statistically significant.
- Workers with a physical or mental health condition or illness (46%) compared to workers with no physical or mental health condition or illness (72%) – statistically significant.
- Workers in hospitality to earn extra money / while studying (33%) compared to workers who see hospitality as career (71%) – statistically significant.
- Café or restaurant workers (52%) compared bar or pub workers (55%) and hotel workers (76%) – statistically significant.

61. At the same time, other groups of workers could lose out from tips that they would otherwise receive in the 'business as usual' scenario. Wider research by CIPD finds that lower-paid occupations (such as bar staff or waiters) tend to be associated with lower scores in their employee voice index (measuring, for example, opportunities for staff to input views to their employer) than managerial occupations<sup>24</sup>. The policy could therefore lead to positive distributional effects. The Treasury's Green Book suggests that 'when assessing costs and benefits of different options, it may be necessary or desirable to "weight" these costs and benefits, depending on which groups in society they fall on', in addition to the unweighted costs and benefits<sup>25</sup>. This is based on the principle of the diminishing marginal utility of income, whereby the value of an additional pound of income is higher for a low-income recipient than for a high-income recipient.

62. The policy could also improve business reputations and customer loyalty. Consumers who wish to reward good service will have the assurance that staff that provided the service, and receive the tips, will have had an opportunity to input into the organisation's tipping policy (if employed at the time their employer last consulted on the tipping policy).

63. There are some other potential impacts on businesses that we have not monetised as they are either likely to be negligible or too uncertain:

- Businesses could incur a cost due to maintaining a record of the consultation. However, the record can be stored at marginal cost and does not need to be amended unless the employer is reviewing the tipping policy, in which case this has already been monetised.
- Businesses could incur a cost due to providing records of the consultation to staff. However, the most cost-effective solution for an employer would be to make the record readily available alongside the written tipping policy itself, for example a physical copy at a company induction when a worker joins, or an electronic copy (e.g. email directly to staff or uploading to a staff portal).

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<sup>23</sup> [Fair Work Convention Survey of Hospitality](#)

<sup>24</sup> [CIPD Good Work Index 2022: survey report](#) and [CIPD Good Work Index 2021: survey report](#)

<sup>25</sup> [The Green Book \(2022\) - GOV.UK \(www.gov.uk\)](#)

- If the consultation process leads to broad agreement among an organisation's staff that the tipping policy is fair, reasonable and clear, then this could lead to a reduction in the number of workplace disputes on the allocation of tips.

## **Business environment**

64. The policy is not anticipated to significantly impact on the business environment. The policy is intended to improve fair competition by ensuring that businesses cannot out-compete others by implement a tipping policy without taking the time to consult with their staff. The policy is expected to be applicable across the economy.

## **Trade implications**

65. The policy is not expected to have an impact on international trade and investment.

## **Environment: Natural capital impact and decarbonisation**

66. The policy is not expected to have an impact on the environment.

## **Other wider impacts (consider the impacts of your proposals)**

67. The policy could potentially benefit all workers to whom payments for services are due in tipping industries, by ensuring that they can be actively involved in the development of their organisation's tipping policies, leading to a fairer allocation of tips and greater work satisfaction. The 2022 IA included detailed analysis showing that the following groups were more likely to be in tipping industries and, therefore, were more likely to benefit from the policy: men, people of Bangladeshi and Pakistani heritage, people with no religion and people aged from 35 to 49<sup>26</sup>. The policy could also particularly benefits groups of workers who have less voice in the workplace in the 'business as usual' scenario. For example, the 'Fair Work Convention Survey of Hospitality Workers and Businesses in Scotland 2023' found that women, younger workers (aged 16-34 years old), and workers with a physical or mental health condition or illness were less likely to report that they had opportunities for voice and opinions to be heard at work<sup>27</sup>.

68. It is expected that the requirement for businesses to consult with staff on their tipping policies will be enforced through enforcement tribunals. Therefore, the policy could lead to an increase in the number of employment tribunal claims and queries to the Advisory, Conciliation and Arbitration Service (ACAS). As the Employment (Allocation of Tips) Act came into effect on 1<sup>st</sup> October 2024, we are unable to draw on observable data on the number of claims and queries to ACAS related to the Act in the 'business as usual' scenario. At the same time, If the consultation process leads to broad agreement among an organisation's staff that the tipping policy is fair, reasonable and clear, then this could lead to a reduction in the number of disputes on the allocation of tips.

## **Risks and assumptions**

69. The specific requirements that the policy will place on businesses are uncertain at the primary legislation stage. As a result, we have had to make a range of illustrative assumptions on the likely impacts of the primary legislation. These assumptions will be refined and tested with stakeholders as the policy detail becomes clearer.

<sup>26</sup> [Impact Assessment \(parliament.uk\)](#), pages 34-37

<sup>27</sup> [Fair Work Convention Survey of Hospitality](#)

70. A key analytical risk is how to establish the baseline ('business as usual'). We use responses to the consultation on the draft Code of Practice published in April 2024 for our assumption on the share of businesses already consulting with their staff. However, the consultation responses do not enable us to determine whether those employers had consulted with their staff every time a change is made to their tipping policy, nor whether the consultation process itself would have been compliant with the new policy. At the same time, the Code of Practice, as it currently stands, strongly encourages employers to consult with their staff and notes this could help a tribunal conclude it to be considered fair and reasonable; this could increase the share of businesses consulting with staff in the 'business as usual' scenario after the Code of Practice comes into effect (1<sup>st</sup> October 2024).
71. There are also some wider policy risks. We plan to work with stakeholders to minimise these impacts as part of the consultation and subsequent amendments to the statutory Code of Practice.
- The policy could lead to a larger number of disputes and/or lower worker satisfaction. This could occur, for example, in cases where there are diverging views among staff on how employers should distribute staff, or where employers choose to place limited weight on the feedback they received from their workers.
  - Workers may not feel comfortable expressing their views during the staff consultation unless there is protection against any detriment arising from this.
  - There could be some confusion amongst businesses and workers in tipping industries, as they have been preparing for the Employment (Allocations of Tips) Act 2023 and statutory Code of Practice, with the Government introducing new strengthened measures shortly afterwards.